DOCUMENT RESUME

ED 278 740 UD 025 316

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TITLE	A New Social Contract: Rethinking the Nature and Purpose of Public Assistance. Report of the Task Force on Poverty and Welfare.
INSTITUTION	New York State Dept. of Social Services, Albany.
PUB DATE	11 Dec 86
NOTE	121p.
PUB TYPE	Viewpoints (120) -- Reports - General (140)
EDRS PRICE	MF01/PC05 Plus Postage.
DESCRIPTORS	*Economically Disadvantaged; *Economic Development; Labor Market; Poverty; *Public Policy; *State Government; Unemployment; Welfare Recipients
IDENTIFIERS	*New York

ABSTRACT

This report highlights the interconnectedness of welfare reform and broader strategies concerning the economy, education, and the conditions of work. Recommendations are presented for policies that would help working poor families avoid dependence on welfare. The report is divided into five chapters. Chapter I summarizes major findings and presents recommendations, to achieve two goals: (1) to make individual self-sufficiency possible through a dynamic economy and a productive labor force; and (2) to approach welfare reform in the larger context of work and the economy. Chapter 2 examines national poverty data to identify who is poor and why. Chapter 3 discusses the importance of economic policies in fighting poverty. Chapter 4 considers specific proposals for reforming welfare and facilitating the transition from welfare to work. Finally, Chapter 5 outlines a strategy for moving toward a new "social contract" based on the mutual responsibilities of citizens and society. (KH)

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ED278740

A New Social Contract

Rethinking the Nature
and Purpose of
Public Assistance

Report of the Task Force
on Poverty and Welfare

Submitted to
Governor Mario M. Cuomo
State of New York
December, 1986

UD025316

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STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

Dear Governor Cuomo:

I am pleased to forward to you the report of the Task Force on Poverty and Welfare, **A New Social Contract: Rethinking the Nature and Purpose of Public Assistance**.

The report highlights the interconnectedness of welfare reform and broader strategies concerning the economy, education, and the conditions of work. The report contains recommendations that will help working poor families avoid dependence on welfare. It also outlines a welfare reform strategy, based on the notion of the mutual responsibilities of citizens and society, that will help recipients to achieve self-sufficiency through work. The reforms suggested herein are investments in the future of our nation's families and children.

The Task Force includes some of the nation's leading academics, who have researched and written thoughtfully on social policy. Many have participated in the development of social policy as public servants at the state and federal levels. The Task Force also includes the Commissioners of key state agencies, who will play important roles in the state's ongoing effort to develop and implement effective policies. All members of the Task Force contributed their valuable time, talent, and wisdom without compensation.

I would like to mention the special contribution of Mary Jo Bane. She served the Task Force both as a member and through her efforts as Executive Deputy Commissioner of the New York State Department of Social Services. Mary Jo's thoughtful perspective on these problems and her careful attention to the development of the Task Force's proposals were crucial to the success of this endeavor. I would be remiss if I did not also mention the exceptional work of Paul Jargowsky of the Department of Social Services, the chief staff person for the Task Force. Paul presided over countless drafts of the report and helped to shape a consensus on the major issues.

I am sure you will find this report useful for designing and implementing state policies, and that it will contribute to the national dialogue on welfare reform.

Sincerely,

Ilene Margolin

Ilene Margolin, Chair
Task Force on Poverty
and Welfare

Task Force on Poverty and Welfare

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All members of the Task Force stand behind the thrust of the report, though individual members may not agree with every point. Several Task Force members have submitted supplemental memoranda, which are included in an appendix.

Project Director: Paul A. Jargowsky, New York State Department of Social Services

Staff support for the Task Force was provided by the New York State Department of Social Services, Cesar A. Perales, Commissioner. Paul Jargowsky directed the staff work on the project, and had primary responsibility for research, preparing materials for the Task Force meetings, and drafting the final report. James B. Welsh and Jeffrey Barnes assisted with economic and statistical analysis. Ann Forsythe provided background research and writing for Chapters 3 and 4. Special thanks are in order for Russell Weinlein who coordinated the Task Force meetings and Patti Branson who provided excellent staff support. Overall direction was provided by Julie B. Wilson, Director of the Office of Program Planning, Analysis and Development, and Mary Jo Bane, Executive Deputy Commissioner and member of the Task Force. Donna Shalala graciously allowed the Task Force to meet numerous times at Hunter College, City University of New York.

Table of Contents

Letter of Transmittal i

Task Force Members ii

Chapter 1. A New Social Contract 1

Chapter 2. Understanding American Poverty 15

Chapter 3. Making Self-Sufficiency Possible 33

Chapter 4. Welfare and Work 63

Chapter 5. Getting from Here to There 89

Appendix A: Sources and References A-1

Appendix B: Statements by Individual Task Force Members B-1

Chapter 1

A New Social Contract

Our society's thinking about poverty and welfare has gone awry.

The problems are all too apparent: more than 30 million Americans, 40 percent of them children, live in households with incomes below the poverty line; too many people, many of them minorities, are not working; our welfare system is a patchwork of programs that neither encourage independence nor provide adequate financial support.

The debate on poverty and welfare too often has been polarized between two competing points of view. One holds that society is to blame for poverty, and that solutions are therefore the sole responsibility of the government. The other point of view holds that poverty stems from individual failures and that government assistance simply rewards those failures.

Based on such assumptions, both liberals and conservatives have tended to look for simple solutions to these complex and frustrating problems. Most of the proposed remedies have focused on the welfare system: it should be abolished, or expanded, or the various programs should be consolidated. Some proposals have relied entirely on the economy, assuming that prosperity will automatically "trickle down" to everyone. Other proposals have ignored the economy, and assumed that if we simply order all welfare recipients to work they will be able to. Still other proposals have focused on larger and more elaborate income transfer schemes, as if that would solve the problem.

These one-dimensional approaches are inadequate to address the variety of problems that cause poverty in the United States. The Task Force on Poverty and Welfare believes that we cannot achieve meaningful reform of welfare without simultaneously addressing the economy, education, and the problems faced by the working poor.

The Task Force envisions a new social contract based on the mutual responsibilities of citizens and society. The new social contract has as its goal the inclusion of all citizens in the economic mainstream. It recognizes that citizens have a responsibility to their fellow citizens to take steps towards self-sufficiency if they are able. All members of society, acting through the private sector, community institutions and government, have a collective responsibility for seeing that opportunities for self-sufficiency and the means to achieve it are available.

The Task Force believes that welfare and other programs should help people enter and maintain themselves in the economy. In addition, however, these programs should be viewed as one means by which the nation adapts to changes in the world economy. Only when all citizens have access to education, training, and opportunities to do productive work will our nation reach its highest potential.

Thus, providing the means and opportunity to enter the economic mainstream is both morally right and economically sound. Recent demographic and economic shifts make it even more important that we understand the economic significance of social investments. The nation's economy is subject to international competition on almost every front, and the skills and knowledge needed to enter and succeed in the labor market have grown dramatically. The productivity of every worker and potential worker is now an important economic concern for all Americans.

Evidence from employment projects around the country indicates that most people who receive public assistance would rather work or prepare themselves for work. Under the new social contract we advocate, public assistance recipients would be able to fulfill their part of the contract through work, training, or education efforts. Society, for its part, would have the responsibility to provide, for a reasonable but limited period, the relevant education, training, and support services necessary for achieving self-sufficiency.

For a variety of reasons, such as high unemployment or low skill levels, not everyone will be able to achieve self-sufficiency through education and training programs. Society's responsibility then is to provide jobs, so that those who are not able to get or hold unsubsidized jobs can still meet their obligation to work if they are able.

Later chapters spell out the new social contract in some detail. Chapter 2, "Understanding American Poverty," lays the groundwork by examining who is poor and the variety of problems that cause poverty. Chapter 3, "Making Self-Sufficiency Possible," discusses the importance of economic policies in fighting poverty. Chapter 4, "Welfare and Work," moves to a more specific level, discussing proposals for reforming welfare and facilitating the transition from welfare to work. The final chapter, "Getting from Here to There," outlines a pragmatic strategy for moving toward our overall vision of a new social contract.

TRENDS IN POVERTY: SOME PROGRESS, SOME PROBLEMS

Poverty persists as a problem in the United States. The nation made considerable progress against poverty throughout the 1950s and 1960s, largely due to economic growth. The poverty rate reached its lowest levels during the seventies. In 1979, the poverty rate began increasing, and reached a high of 15.2 percent in 1983. As the economy has improved, poverty has declined, but **the poverty rate today -- 14 percent -- remains well above the level of the seventies.**

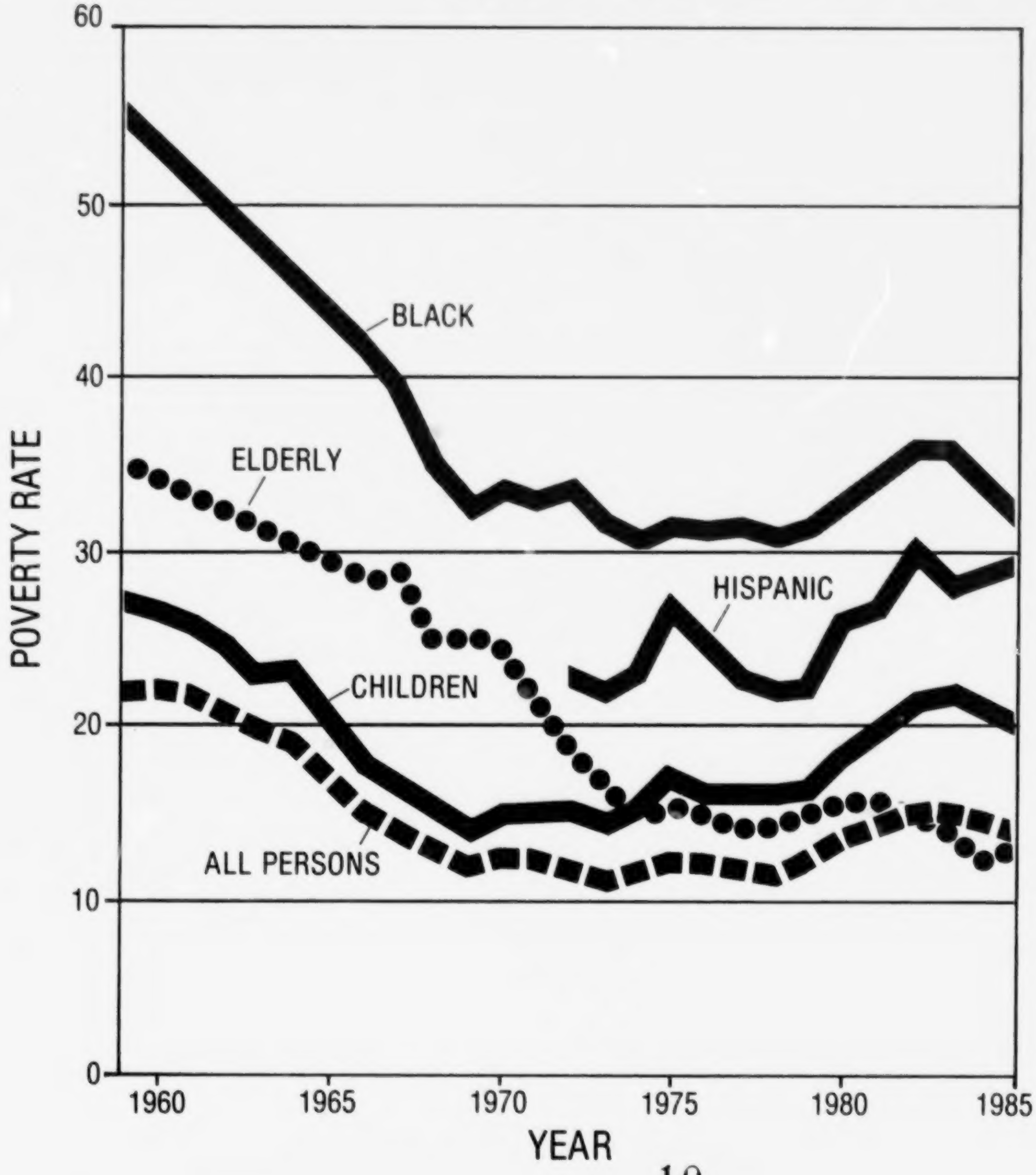
The overall rate masks stark differences among different groups. The poverty rate among blacks, for example, was 31 percent in 1985, much higher than the national figure. Among Hispanics, the rate is 29 percent, although there is also considerable variation within the Hispanic community. The poverty rates over time for several demographic groups are shown on the following page.

The persistence of poverty has led some to argue that our social programs, particularly welfare, have failed. As a result, the argument continues, they need to be abolished or completely overhauled.

The Task Force disagrees. Many of our social programs have contributed to truly remarkable accomplishments:

POVERTY RATE OVER TIME

1959 to 1985



- **Conditions for the elderly have clearly improved over time.** For the last few years, the poverty rate for the elderly has been below the national average. The proportion of the elderly who are poor has declined from one in three 25 years ago to one in ten today. Social Security and Supplementary Security Income (SSI), which are indexed to inflation, and other programs such as Medicare, are directly responsible for the improvements.

- **Minorities have been able to move into the middle class in increasing numbers.** The wage gap between white and black men has narrowed and the wage gap between white and black women has almost disappeared. Minorities are now more visible in professional and managerial occupations and in politics. A variety of programs and policies, from civil rights legislation to Head Start to Pell Grants, have all contributed to this trend.

- **Health care for the poor has increased substantially.** For example, the infant mortality rate for non-whites, who comprise a disproportionate share of the poor, has declined dramatically. Programs such as Medicaid and the Special Supplemental Food Program for Women, Infants and Children (WIC) have helped to increase access to health care.

All Americans can be proud of these historic achievements, and can be inspired by them to attack the problems that remain. These accomplishments show us that we have the capacity to create a better society, in which more of our people share in our nation's prosperity.

Despite progress, problems persist. Two aspects of poverty have been growing worse: poverty among children and the conditions of the inner city poor.

Conditions for children have been growing worse. Children are defined as poor if they live in a household where total family income is less than the poverty level. The proportion of children who are poor has risen almost every year since 1975, and now stands at 20.1

percent. The poverty rate for children under 6 is even higher. While we need to be concerned about all manifestations of poverty, poverty among children must be our greatest concern. Poverty in childhood often means a lack of access to the nutrition, health care, and resources children need to grow into productive adults.

Black and Hispanic children and children in female-headed families are particularly likely to be poor. **More than four in ten minority children are poor, and more than half of all children who live in female-headed families are poor.** For children in minority female-headed families, **nearly seven out of ten are poor**. These figures are even more disturbing in light of the fact that children in female-headed families make up an increasing proportion of our nation's children.

The conditions in the poorest areas of our inner cities also appear to be growing worse. Partly because of progress against discrimination and improvements in economic conditions for some blacks and Hispanics, many were able to move out of poor neighborhoods. Those left behind were usually the poorest.

Poverty in urban areas has become more concentrated, and more isolated from the economic mainstream. In New York City, for example, the proportion of poor blacks who live in areas where the poverty rate is 40 percent or higher has **tripled**, from 15 percent in 1970 to 45 percent in 1980. In other words, nearly half of New York City's poor blacks live in these extremely poor neighborhoods. Other urban areas have shown similar dramatic increases in the concentration and isolation of the poor. The white poor, in contrast, are far less likely to live in poor neighborhoods.

The growing isolation and concentration of the poor has led to worsening living conditions in poor neighborhoods. Others have amply documented this phenomenon, particularly extremely high levels of unemployment, crime, homelessness, welfare dependency, drug and alcohol addiction, and high rates of out-of-wedlock births.

THE IMPETUS FOR WELFARE REFORM.

Some have argued that the welfare system itself has contributed to these worsening problems. Strong evidence exists to dispute this claim, as we will argue in the next chapter. We recognize, however, that while our current system is not a cause of poverty, it is not doing enough to help people become self-sufficient.

Aid to Families with Dependent Children (AFDC), the largest welfare program, is based on outmoded assumptions and expectations. AFDC was originally designed to provide long-term income maintenance to mothers and children who lacked the financial support of a father in the household. In most cases, the mother was a widow and the program embodied the assumption that the mother should not or could not work. Poor mothers were not expected to work because mothers at all income levels seldom worked.

Society has changed in the years since the program was created. **More than half of all mothers of young children are in the labor force**, which means they either work or are looking for work. For mothers of young children who are married, the labor force participation rate was 54 percent in 1985. The figure for women who head households was nearly identical: 53 percent. The greatest increases have been for mothers of the youngest children. For example, the labor force participation rate for wives with children one year or younger has **doubled**, from 24 percent in 1970 to 49 percent in 1985.

Of course, not all women who have young children work. Others accommodate their work lives to the needs of their families by working part time or interrupting work to care for their children. However, in an age where most mothers work at least part of the time, it no longer seems appropriate to base public assistance on the expectation that poor mothers should not work at all. Rather, many Americans from all sides of the political spectrum want to see welfare transformed into a short-term support program that helps those who can to achieve self-sufficiency through work.

Can AFDC and our other social programs accomplish this new goal? The answer depends on the availability and the conditions of entry-level work, since those are the jobs most people on public assistance could get. It has always been difficult for people in entry-level jobs to achieve self-sufficiency, and recent economic trends have made it even harder. Single parents on public assistance, most of whom are women, face the prospect of low wages, expensive child care and no health insurance if they try to become self-sufficient through work. To increase the prospects for self-sufficiency, welfare reform will have to restructure the relationship between welfare and work.

A NEW APPROACH

The Task Force believes that the United States needs a new approach to making our society as productive and as inclusive as we know it can be.

There are certain basic principles underlying the approach we advocate.

> **The conditions faced by people on public assistance are determined in large part outside the welfare system itself.**

The state of the economy, particularly the level of unemployment and the level of wages, determines in large measure how many families will be able to achieve self-sufficiency. Public education determines how many poor people will be prepared to take advantage of opportunities for self-sufficiency. Tax policy and the availability of health insurance and child care will have an impact on whether workers can lift their families out of poverty.

> **The new approach must take account of the diversity of the poor and the many different causes of poverty.**

Most of the poor are not affected by reforms of welfare, because they are not on public assistance or receive minimal benefits. They can only be helped through broader changes in social and economic policy. Poverty is also related to family structure: many single mothers are the victims of an inequitable distribution of the costs of caring for children. Some of the poor are disabled and could work only with special support, while others fight crippling mental disabilities. Our policies and programs must recognize the different causes of poverty and carefully target our efforts and resources.

> **Most important, the new approach is based on a set of mutual obligations and responsibilities.**

The obligations of individuals and the obligations of society form the new social contract which we believe should be the basis of public assistance. Americans have always placed great value on work and self-reliance. They also have a tradition of compassion for the less fortunate and a sense of community responsibility.

Under the new social contract, society will ask that in return for public assistance, recipients will agree to meet the following obligations:

- Adults, excluding the elderly and disabled, have **the obligation to work or prepare themselves for work.**
- Single parents also have an obligation to work or prepare for work at least part time if they are able, reflecting society's changed expectations.
- All parents, regardless of their marital status, have **the obligation to support their children** to the best of their ability.

Society can expect people to prepare themselves for self-sufficient lives. For example:

- Society, in return for public assistance, can insist that **teenagers, including teen parents, must stay in school**, or in an alternative learning environment if that is more appropriate.
- Recipients of public assistance can be expected to take part in education, training, and job placement activities.

Just as important, however, is that society should take its responsibilities seriously. It has a basic responsibility to ensure that all adults have opportunities to work.

- Society can ensure that opportunities to work exist by creating and maintaining a **high-employment economy** that generates unsubsidized employment for all those who can work.

- Society can help citizens take advantage of employment opportunities by creating **an education system that prepares citizens to be productive members of a first-class work force.**

As long as unemployment remains high, some people will not be able to get jobs that support themselves and their families. If enough jobs are not available or many people do not have the skills and abilities to perform them, then the only realistic way to expect everyone to work is to provide jobs through a work program in the public sector.

- Society must **provide the opportunity to do productive work in return for benefits** for those who are unable to get unsubsidized jobs.

Thus, for those able to work, we believe that there should be a period during which they and the government work together to help the individual attain self-sufficiency. Government responsibilities in this partnership include both general measures, such as keeping unemployment down, and specific ones, such as counselling and establishing training opportunities. After a period of working toward self-sufficiency, if recipients have not been able to make the transition to unsubsidized employment, the mutual responsibilities change. Society requires work in exchange for public support, but guarantees that it will be available by providing jobs.

For those who are unable to work as the result of physical or mental disabilities, society should continue to provide **basic income maintenance at a reasonable level** and should increase the social services and support available to those with disabilities.

The Task Force believes that our heavy emphasis on work requires us to reevaluate society's obligations to people who work. Some important societal obligations to this group are well established, such as public education for their children. The Task Force believes that society's obligations to those who fulfill their responsibility to work should now be expanded:

- **People who work should have access to the wages, services and support that will enable them to move their families out of poverty.**

This obligation includes not taxing people with incomes below the poverty line, helping single parents and two-earner families obtain affordable child care, and expanding access to health care for the working poor. For single parents, part time work may be the most it is reasonable to expect because of their obligations to their children. To be self-sufficient, single parents will need to be able to count on child support payments. Thus:

- Society must **enforce child support obligations and ensure child support payments** to make it possible for single parents to achieve self-sufficiency.

WHY A NEW CONTRACT?

The new social contract that we advocate in this report reflects Americans' long tradition of compassion for the poor and the disadvantaged. It is also, however, a contract rooted firmly in self-interest, that most Americans should be willing to "sign" purely on that basis.

Poverty often results from an economy running at less than full capacity and a work force less productive than it might be. But poverty is not the only cost of a stagnant economy. The nation can only compete effectively in the world economy, and thus provide the foundation for everyone's well-being, through capitalizing on its most important but increasingly scarce resource: a well-educated, motivated, and competent labor force. As the nation enters a period of relative labor scarcity, it cannot afford to ignore any potential workers, including those now dependent on public assistance. These investments will pay off, not only for those newly able to obtain better jobs and increased wages, but also for the nation as a whole through a more dynamic economy.

A second argument for a new social contract comes from its provision of "insurance" against disabling conditions and temporary hard times. This country's greatest social welfare triumph, the Social Security Act, grew out of a recognition that we as a nation could collectively insure ourselves against misfortune: unemployment, disability, and the financial risks of growing old.

Social Security and unemployment compensation programs, however, leave some risks unprotected. Much poverty is short-term, resulting from job loss, temporary disability, or family change. The risks of temporary poverty are widespread, with almost a third of the population poor for at least one year in the course of a decade. Insuring against these temporary hard times would seem to be a reasonable addition to the social contract.

Finally, about 40 percent of the poor are children. Their future productive contributions to the economy depend on their current education and development. Investments in children are investments in the future of the society.

For these reasons, we see the new social contract outlined here representing not only Americans' sense of responsibility for their neighbors, but also prudent planning for the future. Our recommendations are for investments in our economy, our labor force, and our children; and for humane and adequate collective insurance against hard times.

RECOMMENDATIONS

Our recommendations fall into two major categories. The goal of the first group is to **make self-sufficiency possible** through a dynamic economy and a productive labor force. We recommend:

- **Building a strong, inclusive economy,** through employment-oriented macroeconomic policies at the federal level, anti-discrimination efforts, and investments in poor neighborhoods.
- **Creating a first-class work force,** through reforms in education, investments in pre-school education, support for training in the private sector, and compensatory training for those who lack the skills and abilities to compete in the labor market.

Our second group of recommendations contains proposals for welfare reform in the larger context of work and the economy. The goal is to help as many people as possible to become self-sufficient, productive members of society. We recommend:

- **Meeting our obligations to those who work,** particularly the working poor and those near poverty, through ensuring access to affordable health insurance and child care; through the enforcement of child support obligations and the guarantee of a minimum child support benefit that enables single parents to support themselves and their children outside of welfare; and through modifications of the tax system to supplement the earnings of working-poor families.

- **Supporting people in transition,** those temporarily poor and out of the labor force, through a time-limited public assistance program that emphasizes the development of self-sufficiency by providing education, training, placement and employment services.

- **Providing benefits in the form of wages for work at guaranteed and required jobs,** for those able to work but unable or unwilling to find unsubsidized employment after a period of education and training services.

- **Providing adequate income maintenance** for those who are disabled or otherwise unable to work.

These recommendations outline a vision based on a recognition of mutual obligations and responsibilities and on the diversity of the poor. We do not, however, advocate attempting to achieve this vision instantaneously. Nor do we advocate a rejection of existing programs and the efforts of the past, or their replacement by a comprehensive new program. Instead, **our strategy builds on the good features of existing programs, phases out bad features, and gradually establishes the newer elements of our vision.**

In particular, we recommend building on current state efforts in such areas as education, training, work programs for welfare recipients, and child support enforcement. Current innovative programs for welfare recipients can gradually be expanded and eventually separated into programs for the working poor, those in transition, and the long term poor. Simultaneously we can bring about changes in child care, health care, and the tax system, to help the working poor and ensure that work is indeed more attractive than welfare.

Some of our proposals are fiscally neutral, while others are best viewed as investments that have positive social and economic payoffs in the long run. In any case, we believe the proposals should be implemented in a fiscally responsible manner. Thus, we recommend **an incremental approach that balances new initiatives with the fiscal constraints** imposed by the federal budget deficit. We want to stress however, that it would be penny wise and pound foolish to ignore the need for greater investments in our children's future and in the productivity of the workforce. Public assistance, in our view, should be just one part of an overall strategy to help people attain self-sufficiency and to reduce the amount of poverty and suffering in America.

The rest of this report explains the background and details of our proposals and makes recommendations on how we can get from here to there. Achieving these goals will not be easy, though many elements of our program have their roots in experiments going on at the state level. We urge the federal government to give the states great flexibility in transforming AFDC and other current programs into a new system with a new goal. We urge New York to be a leader in reforming welfare by putting the ideas we outline in this report to the test.

The United States can once again begin making great strides against poverty. Our nation can be one in which people who work can expect to provide a decent standard of living for their families. Our economy can again provide opportunities for those who are poor to learn, work, and earn a better life. All that we need is the wisdom to act sensibly, the boldness to have vision, and the will to carry it out.

Chapter 2

Understanding American Poverty

The United States is fortunate to be one of the wealthiest nations in the history of the world. Yet amid this great prosperity, it continues to have a significant number of people who are poor. Indeed, the American public seems to have grown frustrated with the apparent lack of success of efforts and expenditures to aid the poor. Almost everyone agrees that our current policies need to be reformed, but there the agreement ends.

Calls for the reform of welfare are not new. The Nixon Administration considered replacing most social welfare programs with a negative income tax. The Carter Administration proposed a combination of income maintenance and guaranteed jobs. Now, many public officials are calling for mandatory "workfare" for all public assistance recipients. Poverty, unfortunately, does not respond to simple, unidimensional reform efforts because poverty is not a simple uniform phenomenon. Any one program or approach may be helpful to some and irrelevant or even harmful to others.

It is simply wrong to think that any single proposal could simultaneously solve the problems of undereducated youth, disabled adults, single mothers with children, the homeless mentally ill, recent immigrants, people who are still poor despite working full time, dislocated workers, displaced homemakers, and all of the others who from time to time find themselves with insufficient income. The basic fallacy of such approaches is that they treat people who are poor as if they were one group with a common problem. In truth, the only thing they all have in common is a symptom: inadequate income. The causes of their poverty are numerous and diverse, including economic, social, personal, and health problems, or some unlucky combination of such problems.

The rest of this chapter looks at who is poor in the United States and why. The Task Force believes that a careful reading of the data on poverty yields three important lessons for any reform effort:

- **The stereotypes of poor people are wrong,** and can lead to counter-productive policy proposals.
- **People are poor for many different reasons,** and our policies must take account of these differences to fashion effective programs.
- **Welfare reform, without broader reforms in social and economic policies, is very limited in what it can accomplish.**

THE POOR: MYTHS VS. REALITY

Defining Poverty

Poverty is deprivation -- deprivation of food, shelter, medical care, and other basic necessities in quantities sufficient to survive. There is not a good measure of this condition, however, so poverty is measured by comparing household income to a standard that represents the minimum needed to obtain the necessities of life. If the level of income earned by all members of a household is below the poverty standard for a household of that size, all members of that household are counted as poor.

In 1985, 33.1 million people lived in poverty -- 14.0 percent of the population. The official poverty levels for different household sizes are shown below. For comparison, the median household incomes for families of the same size are also shown. (The median income is the income of the household halfway down a list of incomes from the highest to the lowest.)

POVERTY LEVEL BY FAMILY SIZE, 1985

Number of Persons	2	3	4	5
Poverty Level	$7,240	$8,580	$11,000	$13,030
Median Household Income	23,132	29,265	32,777	31,794

A household with a single parent and two children, for example, in considered poor if the total household income from all sources is less than $8,580. In almost every state, public assistance benefits available to this family would not reach the poverty line, even with Food Stamps included. The median state in terms of public assistance benefits provides an AFDC benefit of $346 per month and about $178 per month in Food Stamps, amounting to $6,288 per year -- only 73 percent of the poverty level for a family of three. Food costs for the family, according to the Department of Agriculture's Thrifty Food Plan, are at least $211 per month. Rent and utilities obviously vary a lot by location, but are likely to be at least $200 per month. That leaves $113 per month, at most, for clothing, transportation, household needs, and all other expenses.

It is hard to capture in numbers, however, the human cost of poverty. Perhaps the only way to understand what poverty means to people is to meet them and share their dreams, hopes, and frustrations. Poverty means children without adequate nutrition, children who see no hope, men and women who cannot find jobs or only jobs that do not pay enough to provide for the basic needs of their families. For many, poverty means living in neighborhoods that are dangerous, where even the hardest working and most diligent are constantly surrounded by destructive role models. The poet Langston Hughes may have said it best in his subtle but moving question: "What happens to a dream deferred?"

The Stereotypes

The stereotype of the typical poor person is that he or she is a member of a minority group, lives in an urban ghetto, has never married but has many children, never had a job and does not want to work, and lives permanently on welfare. While people like this undoubtedly exist, they are a tiny fraction of those in poverty.

The typical poor person is quite different. Below we examine some of the myths about the poor, using data from the 1984 and 1985 Current Population Survey, the 1980 Census, and other sources.

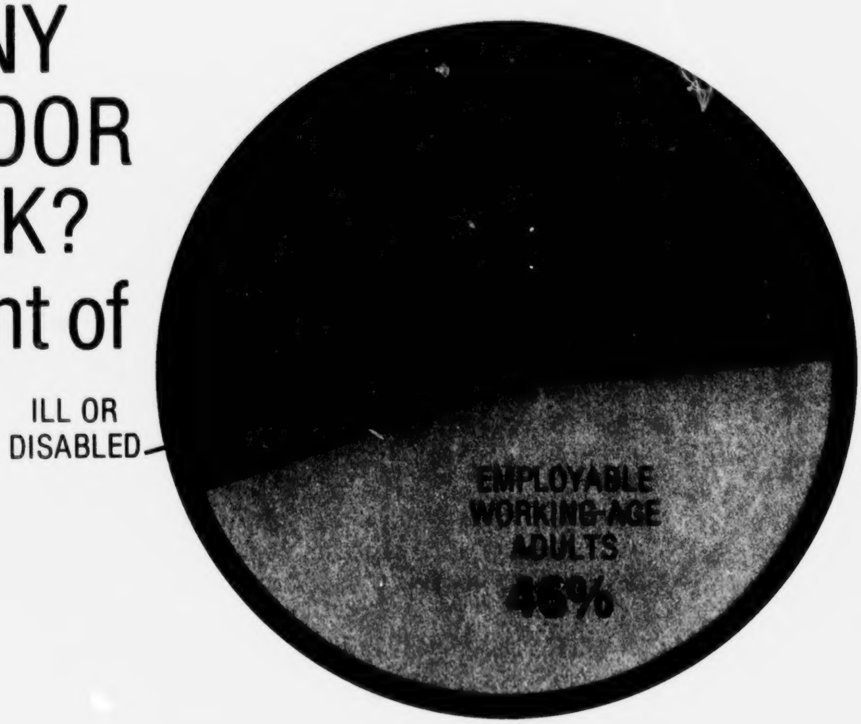
MYTH 1: MOST POOR PEOPLE ARE ABLE TO WORK BUT DO NOT. In fact, most poor people who can work do work. About two-thirds of the non-elderly, non-disabled poor live in a household where someone works.

- **Nearly four out of ten poor people are children.**
- **More than one in ten of the poor are elderly.**
- As a result, **less than half of the poor are working-age adults.**
- About 5 percent of the poor are too ill or disabled to work.
- Of the working age adults who **can work, 56 percent work at least part time and another 9 percent are unable to find work.** Only about one third are neither working nor looking for work.

The charts on the following page help to illustrate that the stereotype that most poor people do not work is not correct. Most of those who can work are working. These are the working poor, many of whom are only poor for a short period of time. Despite working, in many cases full-year, full-time, they have inadequate incomes, and often inadequate health insurance. They are doing what is expected of them, yet they are not able to escape poverty.

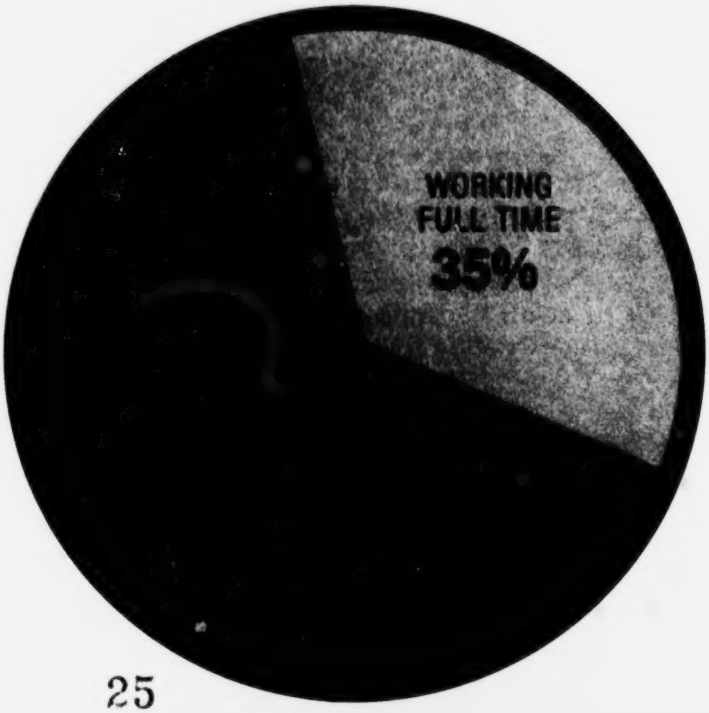
HOW MANY OF THE POOR CAN WORK?

As a percent of those in poverty



HOW MANY DO WORK?

As a percent of employable working-age poor



MYTH 2: MOST POOR PEOPLE COLLECT PUBLIC ASSISTANCE. Again, the facts tell another story: Fewer than half the people who were poor in 1984 lived in households where someone received cash income from public assistance.

Although virtually all the poor are eligible for Food Stamps, the majority of working poor do not participate in the program because of the perceived stigma, administrative obstacles, or other reasons. **And there are no other national "welfare" programs for the working poor in two-parent families, for childless couples, or for single individuals.** Only single-parent households (and, in about half the states, two-parent families with children and an unemployed parent) are eligible for AFDC, which is what most people have in mind when they talk about welfare.

MYTH 3: MOST POOR PEOPLE ARE MEMBERS OF MINORITY GROUPS. In fact, the typical poor person is not a member of a minority group:

- **Most poor people are white:** 57 percent of the nation's poor are non-Hispanic whites; 27 percent are non-Hispanic blacks; and 12 percent are Hispanic.
- The figures in states with large urban centers are somewhat different. In New York State, for example, 46.5 percent of the poor are non-Hispanic whites; 27.4 percent non-Hispanic blacks; and 24 percent Hispanic.

MYTH 4: THE TYPICAL POOR FAMILY IS HEADED BY A WOMAN AND HAS LARGE NUMBERS OF CHILDREN.

Despite the strong correlation between poverty and female-headed families the typical poor family does not meet this description.

- **More poor people live in families headed by married couples or by men than in families headed by women,** nationally 43 percent vs. 35 percent. (The rest are single individuals.)

- **The average family size is less than 4 persons,** including one or two parents. The average number of children per poor family is less than 1.8.

MYTH 5: THE TYPICAL POOR PERSON LIVES IN AN INNER CITY GHETTO AND IS LIKE THE PEOPLE PORTRAYED IN JOURNALISTIC ACCOUNTS OF INNER-CITY POOR NEIGHBORHOODS.

The recent upsurge in media attention to the plight of the homeless and poor is certainly welcome. Unfortunately, the coverage has focused for the most part on the inner-city poor, perhaps because they are the easiest to locate. It is misleading, however, to think of the typical poor person in this way.

- **About thirty percent of the poor live in rural areas.** In comparison, 43 percent live in central cities.
- In 1980, about 1.8 million poor people lived in the 100 largest central cities, in areas where the poverty rate was 40 percent or higher. These are the true "ghettos," and they contain **only 6.7 percent of the nation's poor.**
- In New York State, the problem is more severe. About 22 percent of the poor live in these high-poverty areas, most of which are in New York City.

The conditions in inner-city poor neighborhoods are truly disturbing. Still, it is important to remember that the typical poor person is not a resident of a high poverty area.

Few residents of poor inner-city neighborhoods are like the alienated young men portrayed in newspaper and television accounts of the urban "underclass." More than four in ten, for example, live in two-parent families and nearly four in ten live in families where someone works.

MYTH 6: ONCE POOR, ALWAYS POOR. The popular perception is that poverty and welfare dependence are permanent conditions. In fact, however, many families move into and out of poverty fairly regularly.

- Between 1969 and 1978, almost one-third of the population lived in households that were poor for at least one year.
- About half of those who were ever poor during this decade had incomes below the poverty level for only one or two years.
- Only one in six of those who ever became poor during this decade (5.1 percent of the population) were poor for eight years or more.

Similar numbers are found for receipt of welfare. The poverty population observed at a given point in time will include a large proportion of people who are in the midst of a long-term spell of poverty. The apparent difference results from the fact that people with long spells that started 8 years before, 7 years before, 6 years before, and so on are still poor. They "pile up" and seem to be a large part of the overall poverty population.

Why Are These Misconceptions So Common?

Differences in poverty rates. In part, the stereotype of the typical poor person rises out of the observation that some groups of people are more likely to be poor than others. For example:

- **Race, ethnicity, and poverty**: The poverty rate for whites was 11.4 percent in 1985, compared to 31.3 percent for blacks and 29.0 percent of Hispanics.
- **Sex of the head of household**: Female-headed households with children present were poor 45 percent of the time, **nearly 5 times** the rate for two-parent and male-headed households.

Blacks, Hispanics, children, families headed by women, large families, and residents of central city poverty areas are much more likely than others to be poor. But because the vast majority of the total population is white and lives in two-parent families, they are the majority of the poverty population, even though they have lower poverty rates The **rates** of poverty among different groups have been confused with the composition of the poor.

Differences between the long-term and short-term poor. Stereotypes about the poor may also arise from the greater visibility of the long-term poor, and of the poor who are concentrated in poverty areas. The long-term poor are more likely to come to our attention precisely because they are poor longer, and because they are more likely to receive public services and welfare.

And it is true that **those who are poor for long periods of time tend to come from different groups and enter poverty by different routes than those who are poor for shorter periods of time.** The short-term poor, those who are poor for two years or less, are more likely to be white; to live in two-parent families; and to be "working poor" because of a job layoff or a drop in wages.

The long-term poor, those who are poor for eight or more years, are more likely to conform to the stereotypes. They are more likely to be black or Hispanic; live in single parent households, especially those formed when unmarried women have children; be out of the labor force and receiving welfare.

While it is important to recognize the special problems of the long-term poor, failure to see that poverty is a much broader problem affecting many different groups in the population distorts both attitudes and public policy.

Confusing the poor with public assistance recipients. Misconceptions about the poor may also arise if people assume that all the poor receive public assistance. In fact, as noted above, fewer than half the people who were poor in 1984 lived in households where someone received cash income from public assistance.

The confusion between the poor and those who receive public assistance may partly explain the prevalence of some of the myths cited above. Since, by and large, AFDC is a program for female-headed families, the public believes that most poor people are in single parent families. Since many public assistance recipients are out of work and caring for children, the public can come to believe that the poor do not work.

Political rhetoric. Another reason there are so many misconceptions about the poor is that some politicians have exploited the fears and frustrations of voters with inflated rhetoric about "welfare cheats" and the dramatic changes that could be brought about through "workfare." They cite horror stories of people collecting multiple benefits, of women whose boyfriends "sneak in the back door at night," and so on.

Some cheating and administrative errors do occur, as in any large organization. But errors in AFDC and Food Stamp cases, as verified by the Federal government, have declined 65 percent since the mid-seventies. The rate of overpayment was 6 percent in 1984, and it has been declining steadily.

Yet some political leaders continue to misrepresent the facts by presenting the exception to the rule as if it were the general case. They ignore the fact that the vast majority of recipients are eligible for and need the aid that is provided, aid that Americans say they support for people who actually need it. By distorting the facts, these politicians do a disservice to the American public and impede the development of sensible policies to address the problems that cause poverty to exist.

THE CAUSES OF POVERTY

Measuring poverty is one thing, understanding its origins quite another. For some groups, causes are easy to identify: the elderly and disabled, for example, are not expected to work and their poverty has its roots in inadequate income benefits. For single-parent families, the causes of poverty are more complex. Poor neighborhoods, the subject of so much recent attention, also raise important questions about the origins of poverty. We will discuss poor neighborhoods and single parents separately. Then we will turn our attention to economic explanations of poverty, and the relationship of work, poverty, and welfare.

"Underclass" Neighborhoods and Poverty

Poverty seems to have gotten worse for those who live in our nation's poorest neighborhoods. A number of recent journalistic accounts have powerfully portrayed the social disorganization of such neighborhoods. Nearly six in ten residents do not live in a two-parent family. Only 38 percent of the males over 16 are employed. The median family income for **all** families in these neighborhoods in 1980 was only $7,403; for poor families, $3,570.

Drug use, crime, youth gangs, alcohol and drug addiction, and a crumbling housing stock make life in these areas, even for the non-poor, treacherous and demoralizing. In these neighborhoods, the normal support structures that help people to achieve self-sufficiency -- including the schools, local businesses, and the existence of role models -- have broken down.

Although residents of concentrated poverty areas are only a small proportion (6.7 percent) of the nation's poor, it is particularly important to understand, as best we can, the causes of their poverty. The overrepresentation in poor neighborhoods of a variety of problems -- teen pregnancy, dropping out of school, crime, withdrawal from the labor force -- raises questions about the relationship between the poverty of a neighborhood and the behavior and values of its residents.

The Task Force believes that the lack of opportunities and the isolation of ghetto neighborhoods establish a vicious circle in which behavior that ultimately proves self-defeating seems both reasonable and rewarding. Young men, for example, who see no legitimate job in their future may see no reason to stay in school and good reason to become part of the underground economy. Young women who have no reason to expect good marriages or satisfying careers should not surprise us when they have children outside of marriage.

The primary role for government in attacking the poverty of underclass neighborhoods is to provide the opportunity structure in which changed behavior, delayed parenthood, school completion, and hard work will indeed pay off. Government can deal with the underlying causes of poverty: economic distress, poor education and barriers to employment that affect underclass neighborhoods even more acutely than they affect the rest of the poor. Special efforts at the neighborhood level are necessary to bring the benefits of economic growth into these areas.

Single-Parent Families

The proportion of children living in one-parent families more than doubled between 1960 and 1984, to 19 percent among white and

59 percent among black children. Almost all of the these families were headed by women. The poverty rates in these families, particularly for children, are extremely high.

There is no definitive explanation for the huge rise in the proportion of children in female-headed families that has taken place since 1970. Divorce and separation rates have continued to increase. In addition, the number of births to women who had never been married increased, especially among blacks, primarily because of a dramatic decrease in marriage.

And what explains the decrease in marriage? One argument points out that the "marriageable pool" of black men has decreased dramatically in the inner cities. Due to the extraordinarily high unemployment rates among young black men in the inner city, the number of males who have steady jobs and regular income -- potential marriage partners with the ability and opportunity to support families -- is less than the number of women. Many of the women face equally grim futures. Without the expectation of reasonable marriages or attractive careers, the women are left with single motherhood as their only route to adulthood.

This explanation, of course, does not speak to the entire phenomenon of single-parent families, and is most applicable in the urban poverty areas. It suggests, however, that we must look for underlying "causes" in the economy and in social structure.

The high rates of poverty in single-parent families, whether or not they live in poor neighborhoods, are easier to understand. There are three major sources of income for female-headed families: work by the custodial parent; child support from the non-custodial parent; and public assistance. Two-thirds of all single mothers with children work, and more than a third work full-year, full-time. Earnings are by far the most important source of income for single mothers. Thus it is not surprising that poverty rates among female-headed families, like poverty rates generally, fluctuate with the economy. Productivity and wage increases bring better times to single mothers, as they do to most workers.

Child care responsibilities make it difficult for many single parents to work full time. Moreover, women's wages are almost always lower than those of men. Part of the wage differential, and therefore the poverty of female heads, has to do with failure to eliminate discrimination and with failure to supplement the earnings of those who are working at full capacity.

An obvious source of supplemental income for working single parents is child support. Yet female-headed families receive only about 10 percent of their income from this source. Recent studies have shown that child support awards are often inadequate, and only about half are paid in full. For never-married mothers, child support is virtually non-existent. Other studies show that the absent parent is relatively much better off after the breakup than the custodial parent. Increasing child support awards and enforcement clearly has some potential for alleviating poverty among single parents and their children.

We will return to the problems of single parent families, as well as to those of underclass neighborhoods, as we discuss other roots of poverty.

Economic Factors

The changes in the poverty rate over time **almost perfectly mirror changes in the overall performance of the economy**. The reason is simple: most of the poor are "working poor." Nearly two-thirds of the non-elderly poor live in households where someone works. When productivity growth is translated into real wage gains, many marginal families are brought out of poverty.

Not all the poor can be helped by economic growth alone. Poverty among female heads of household does fluctuate with the economy, but even in the best of economic times their poverty rate is very high. At the height of the most recent recession, in 1982, the poverty rate for persons in female-headed families with children was 56 percent. In 1979, when unemployment was at its lowest point in the last decade, the poverty rate for this group was still 49 percent.

Moreover, the public assistance caseload -- welfare -- is relatively insensitive to changes in the economy. Nationally, 65 percent of the persons on AFDC in 1985 were children. Of the adults, 11 percent were ill or incapacitated. Those who are employable are usually at the end of the queue when it comes to getting jobs, so that it may take time for the benefits of a booming economy to reach them.

Nonetheless, real economic growth is a clear prerequisite to reducing poverty, and is one of the the most important anti-poverty strategies. A second important strategy deals with another of the economic roots of poverty: **the lack of basic education and skills** among many of the poor. **Less than half of poor adults are high school graduates, compared to three fourths of non-poor adults.** For the American economy to grow and be productive, it must increasingly concentrate on those industries that require highly competent workers. The inability of many of the poor to compete in this new labor market leads to unemployment and low wages and thus to continued poverty.

In sum, we believe that most of the poverty of two-parent families and much of the poverty of single-parent families can be explained and dealt with through economic policies:

- **Overall economic conditions** affect poverty rates dramatically.
- **Deficiencies in education and skills** thwart the ability of many of the poor to compete in the labor market, and can be dealt with through policies to build an overall first class labor force.

Poverty, Welfare, and Work

The Task Force disagrees with the argument that the growth of social welfare programs during the 1970s is the major reason poverty rates are so high today. Welfare programs, according to this argument, combined with a decline of discipline in the schools, contributed to a general decline in willingness to take responsibility for one's fate. What followed was an increase in crime, in the number of women having children out of wedlock, and in the number of men remaining out of the labor force. As a result, progress against poverty came to a halt at the same time that social programs were experiencing massive growth.

We find strong evidence that this argument is wrong. For example, real welfare benefits have been declining since the mid-1970s, the same period during which births to unmarried women were increasing and young men's labor force participation was decreasing. In addition, studies of the relationship between welfare benefit levels and births to unmarried women show almost no relationship, suggesting that family structure changes have been driven by economic and attitudinal changes.

A more sophisticated view of the effects of welfare programs, however, would focus on the relative attractiveness of welfare and work. Such comparisons suggest that, although welfare might not be the root of the problem of poverty, it has not been much of a solution either.

- **Cash welfare benefits are not high enough in any state to bring recipients above the poverty line.**

In New York State, AFDC in 1985 provided a family (with no other income) benefits in cash equal to about 70 percent of the poverty line. All but five states provided even lower benefits.

- **Given the prevailing wages for entry-level work, especially for women, families are not necessarily better off working than they are on welfare.**

Under the current rules of AFDC and related programs, a single parent who works often experiences a drop in disposable income. The next hurdle is that the parent loses health care coverage under Medicaid for his or her family. Given the prevailing wages for entry-level work for single parents, most of whom are women, and the difficulty of working full-time, many persons will be better off, at least in the short run, by not working.

- **Our policies do almost nothing to increase the attractiveness of work for families who are close to poverty.**

Work incentives were virtually eliminated from the AFDC program in the early 1980s. Median wage levels stayed about constant, and the minimum wage fell considerably in real terms. No efforts were made to extend health coverage or child care to the working poor, or to supplement the earnings of workers with greater needs than they were able to meet with earnings from full-time jobs. In short, we did virtually nothing to deal with the problems of the working poor.

There are only two ways to improve the transition from welfare to work: either improve the conditions of work or make welfare worse. During the late 1970s and early 1980s the nation tested the effects of lowering welfare benefits. Real welfare benefits fell about 35 percent between 1970 and 1985. Eligibility was tightened, and welfare administration, forced to focus on error rates, became much more intrusive. During that same period, the proportion of children in single parent families went up. The proportion of single mothers who worked stayed about the same. The poverty rate for children in female-headed families went up. Making welfare benefits lower and harder to get did not improve the lot of poor children.

We conclude that reforms of the welfare system are an important part of an anti-poverty strategy. At the same time, however, making work more attractive than welfare will require attention to the situation of the working poor.

CONCLUSIONS

The Task Force draws several conclusions from this examination of poverty in the United States. The first and most important is that poverty is caused by a variety of different problems. Thus, our social policies must recognize the diversity of the poor if they are going to be effective. For example, many of the working poor are not on public assistance and cannot be helped by changing the nature of welfare. People who are poor because of an unfortunate event in their lives, such as the break-up of a family or the loss of a job, usually need income support for a short time and assistance in getting their lives back together. People whose poverty reflects an underlying structural problem obviously need a different kind of help.

A second conclusion we draw is that welfare reform must go beyond welfare, and must address several fronts simultaneously. The economy, education, and the conditions of entry-level work, and the welfare system are all interrelated. The state of the economy and quality of education determine in a fundamental way how many of our citizens can be self-sufficient and how many can make the transition to unsubsidized employment. Attempts to reform welfare will be frustrated if concurrent changes are not made in these other areas.

Thus, the Task Force believes that one of the most important public policies to help the poor is to pursue a high-employment,

high-productivity economy. Public policies will also be needed to break down the barriers that might prevent the poor from making use of the opportunities provided by the economy. Improvements in education, anti-discrimination efforts, improved child care, affordable health coverage for uncovered workers, child support for single-parent families and other measures will help to ensure that work is better than welfare.

Our third conclusion is that public assistance programs must respond to the different needs of the poor. Programs should focus education and training services on those who can use them to obtain unsubsidized employment. Work opportunities should be reserved for those who have not been able to become self-sufficient through a service delivery approach. Long-term income maintenance will still be needed for those who are physically or mentally unable to work.

Our experience with social programs has achieved a number of important successes, but many serious problems remain. The Task Force believes that our nation must get beyond the stereotypes of poor people to fashion effective policies. In the chapters that follow, we set forth our vision of a new social contract, based on the mutual obligations of citizens and society. Our approach takes account of the diversity of the poor and the need to look at welfare in the context of the state of the economy and the conditions of entry-level work.

Chapter 3

Making Self-Sufficiency Possible

One of the principal obligations of government is to create and maintain a high-employment economy, with adequate wage levels based on the productivity of the work force. All Americans benefit from a dynamic economy, but it is the poor who suffer most when government fails to meet this basic responsibility. This chapter discusses the relationship between the economy and poverty in more detail, examines the implications for social policy of recent economic trends, and suggests directions for state and federal policy.

We will argue that the most important long-run strategies for fighting poverty are: 1) a high-productivity economy running at full employment; 2) efforts to spread the benefits of economic growth to poor communities; 3) an effective education system; and 4) increased adult education, training, and retraining. In addition to reducing poverty, such policies yield important **economic benefits** by providing the first-class labor force needed to maintain America's high productivity.

THE ECONOMY AND WELFARE REFORM

Most of the poor live in households where someone works. Poverty for this group is closely tied to changes in the economy. Changes we make in welfare and other social programs are, in the long run, overshadowed by the importance of the economy. Moreover, economic conditions can either limit or facilitate reforms in welfare, education and training. No significant progress can be made in reforming welfare without increases in employment, improvements in the wages and benefits associated with entry-level work, better training and job readiness among the poor, and efforts to reduce discrimination in wages and employment.

The argument works in reverse as well. If unemployment remains high and wages in many jobs are too low to support families above the poverty level, the nation will have to provide income support in one way or another. If our education and training systems do not give people the skills to perform the work that is available, our economic competitiveness and our standard of living will suffer.

Thus, the Task Force believes that a high-employment economy, quality education, and increased training opportunities are important prerequisites for the success of welfare reform. While it is not our intention to redesign macroeconomic policy or the educational system, we believe that we can indicate the general directions in which public policy should move. After discussing these issues in this chapter, we will move on to our central focus -- the reform of welfare and its relationship to work -- in subsequent chapters.

ECONOMIC GROWTH AND THE POOR

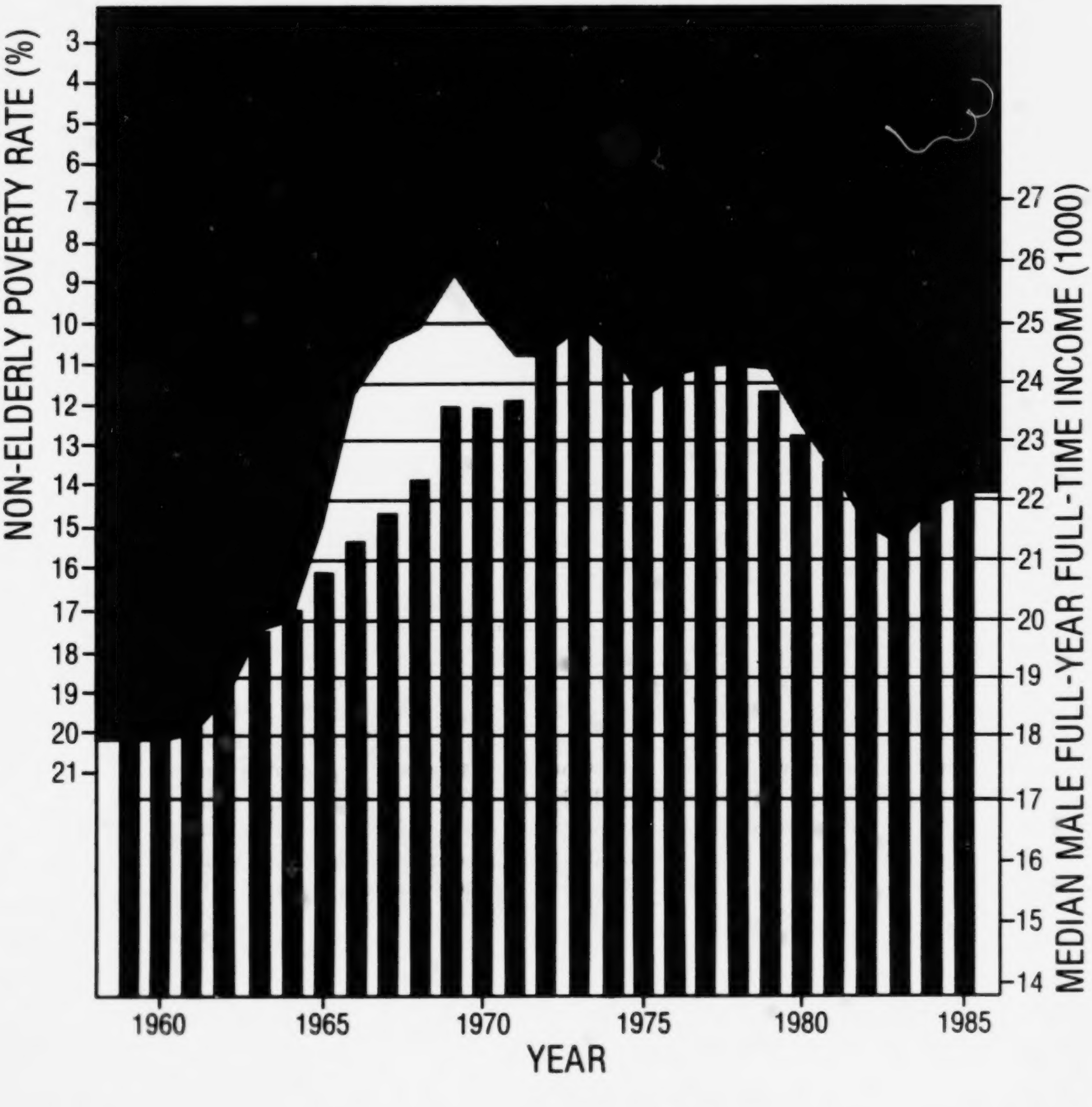
Economic growth is an essential part of an effective anti-poverty strategy. **Increases in real wages are very closely tied to decreases in the poverty rate.** The graph on the facing page vividly illustrates this inverse relationship. Growth in the economy during the early seventies, as measured by the associated growth in the median income of full-year, full-time male workers, produced sharp declines in the poverty rate. As real wages ceased to grow and then declined, the poverty rate stabilized and then grew.

Wage growth reduces poverty. The relationship of wages and poverty underscores the importance of a strong economy as an anti-poverty strategy. Real wages, however, are not under the direct control of policy makers. They instead depend on a variety of factors including productivity growth, the state of international competition, and supply and demand in the labor market.

High unemployment holds down real wages. This is the essence of the national macroeconomic strategy pursued in recent years: controlling inflation through recessions and high unemployment. The control of inflation is an important national objective, but using unemployment as a remedy for inflation places an unfair share of the burden on the poor and those near the poverty level.

POVERTY AND THE LEVEL OF WAGES

1959 to 1985



According to recent research, a one point rise in prime age male unemployment increases the poverty rate **seven times more** than a one percent rise in inflation. In addition, the burden of unemployment is not equally distributed. Non-white males experience more than twice as much additional unemployment than white males when the economy turns down, and non-white women experience one and a half times more additional unemployment than white women when unemployment rises.

The Task Force finds it disturbing that, in the midst of a national economic recovery, the nation seems to have accepted unemployment levels that are very high by historical standards. Each cycle of boom and recession leaves us with a higher rate of unemployment, as is illustrated by the graph on the following page.

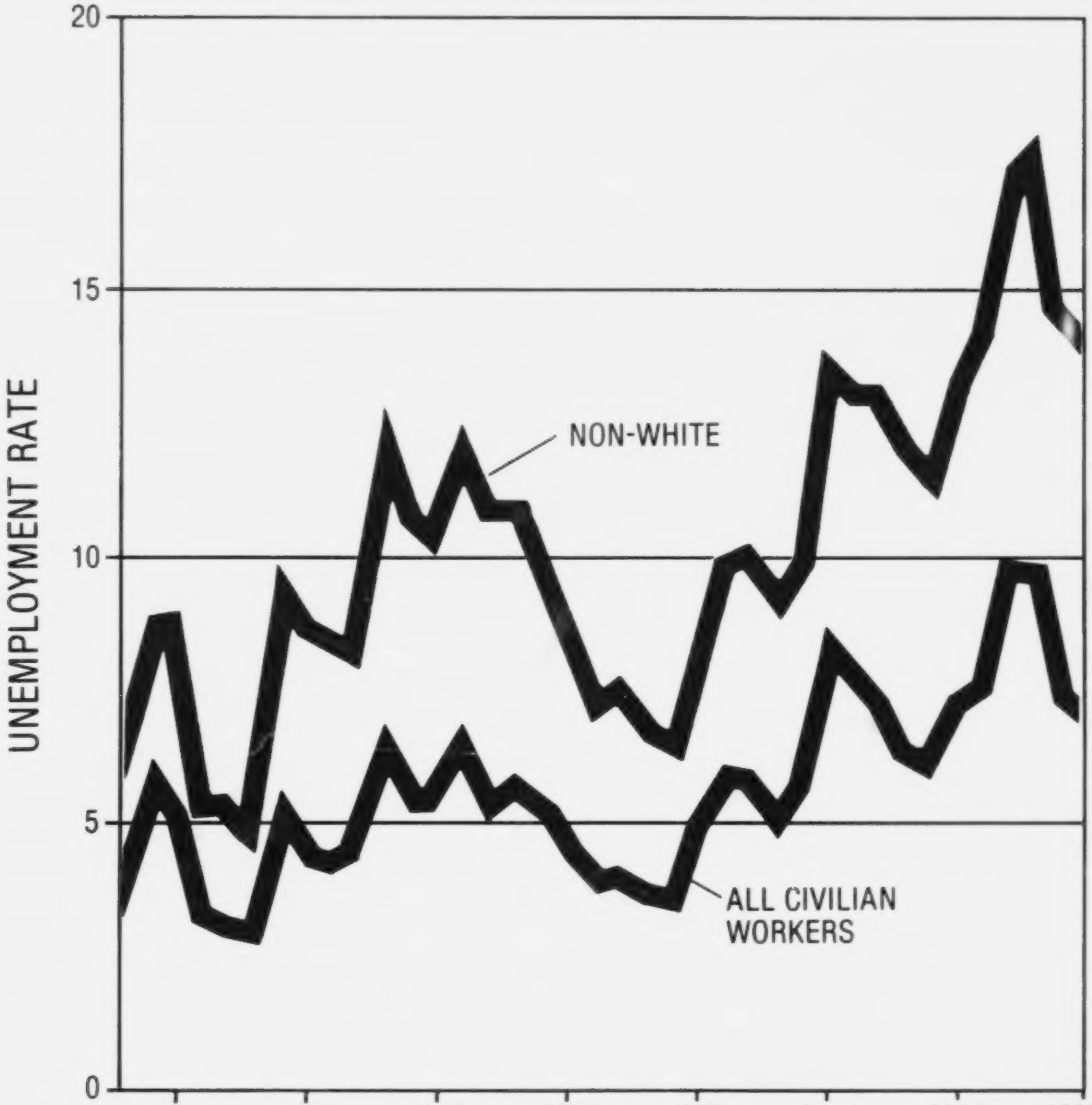
Today, in the midst of a recovery, we have unemployment levels well above 1970 levels. The national unemployment rate in 1985 was 7.2 percent, 2.3 points above its 1970 level. The rate for non-whites was worse: 13.7 percent, more than 5 points above the 1970 level.

Unemployment levels this high would have been unacceptable at any time before the last decade, and should be unacceptable today. High unemployment increases poverty, holds down the growth of wages, and concentrates the costs of fighting inflation on the group least able to afford it. It ultimately frustrates our efforts to combat poverty. Now that inflation has abated, there is no longer any reason to tolerate such high levels of unemployment. Our economy can and should generate more jobs, because jobs are the only real route out of poverty.

Increasing productivity. There is an important difference, however, between creating more low-paying, low-productivity jobs and creating high-paying, high-productivity jobs. If the nation were simply interested in creating jobs, it could lower the minimum wage, put a tax on investment in plant and equipment and throw up trade barriers. Real wages, however, would not increase in the long run, and the impact on poverty would be minimal. Creating high value jobs requires investing in the productivity of business, industry, and the labor force. Thus, there are two prerequisites for real wage growth: increasing productivity and a high-employment economy.

THE UNEMPLOYMENT RATE

1948 to 1985



Productivity increases operate at both the macroeconomic level and at the "micro" level of individual firms, work processes, and workers. An effective productivity program must address both general labor force needs such as education and training, and problems at the level of the individual businesses, encompassing labor and management relationships, better managerial and financial skills, increased training of workers, and more efficient production and inventory techniques. At the macroeconomic level, broad investments in education and training can increase the overall level of productivity of the work force.

Improving the productivity of the work force will result in better jobs and a higher standard of living for all Americans. A high employment economy and increases in productivity complement each other to produce long-term economic health and adequate job opportunities for the poor. This principle is especially important at a time when demographic shifts, discussed further below, are reducing the number of new workers. If enough skilled workers are not available in the U.S., many jobs may be lost to international competition.

LABOR FORCE PRODUCTIVITY AND INTERNATIONAL COMPETITION

Investments in the work force, particularly poor and minority workers who have historically received less preparation for the labor market, will become increasingly important in the decades ahead as an **economic** policy. The last few decades brought profound changes in the structure and functioning of the nation's economy. American superiority in productivity and technology is no longer automatic. These pressures make older economic policies of aggregate demand management inadequate by themselves.

Employment in services, finance and construction industries has grown, but manufacturing employment, particularly in industries that serve national or international markets, has declined sharply. Increasingly, high volume, standardized manufacturing is being done in countries where wages are low. Superior technology developed in America has been shipped overseas to be combined with cheaper labor. As a result, many goods once produced in this country are now produced overseas.

The increasing international fluidity of capital means that corporations can rapidly shift production around the world to seek low-cost operation. The United States must now compete with other countries, but it cannot and should not compete on the basis of lowering wages and standards of living. To do so would mean reducing wages well below acceptable levels, resulting in diminished economic growth and a lower standard of living. Fortunately, there is an alternative strategy.

The challenge is to find ways to increase our economic competitiveness that cannot be shipped across international borders or duplicated elsewhere. Few factors of production are truly immovable. Only the nation's labor force is a fairly fixed resource, in the sense that Americans will not move in significant numbers to foreign countries to pursue jobs. Even in the context of New York State, migration to other regions of the nation has its limits.

Consequently, the Task Force believes that our best long-run strategy is improving the productivity of American workers. Maintaining the wages of U.S. workers above international levels requires that U.S. workers be capable of producing output of higher value. In other words, they must be more productive.

THE LABOR MARKET OUTLOOK FOR THE POOR

Changes in Economic Structure

A dynamic economy requires investments in the labor force. Many analysts believe the economy increasingly needs literacy and flexibility rather than brawn and job-specific skills. More jobs are in high technology industries, and service industry jobs tend to require basic literacy and communication skills. Even blue collar jobs are becoming increasingly complex as technology is introduced into the workplace.

A recent study of employment trends in nine major cities confirms the increasing skill levels demanded by the new economy. The study rated the major industrial groups in each area by the average educational level of the industry's workers. Then, it compared job losses and gains in industries in which the average worker had graduated from high school to industries in which the average worker did not. In every city, the industries with higher education levels far outpaced those with lower levels. Taken together, the nine cities lost 733,000 jobs in the low-education industries and gained 680,000 jobs in the high-education industries between 1970 and 1983.

Changes in the Supply of Labor

Higher unemployment and adverse demographic trends have made it very difficult for the poor and minorities to get into the labor market. During the sixties and seventies, the babyboomers created a vast increase in the number of young adults entering the labor market. This posed a problem for the poor, who were often competing for the same entry-level jobs. Between 1970 and 1980, the number of persons aged 20 to 29 increased 38 percent, while total employment increased only 25 percent. In New York, the number of young adults increased 13 percent while employment remained constant. Thus, increases in the population of young adults outstripped growth in employment. In addition, the labor force participation rate for U.S women increased from 46.3 in 1975 to 53.6 in 1984, putting further pressure on the labor market.

Since the poor often have the least education and training, they are among the last to be hired when there is a labor surplus. Discrimination also plays a significant role in consigning the poor to the end of the labor queue.

Fortunately, the labor market outlook for the next few decades is much more positive. Indeed, substantial demographic shifts may help integrate the poor into the labor force, provided the nation acts to capitalize on opportunity. Between 1980 and 1985, the number of jobs began to grow at a faster pace than the number of young adults, a reversal of the earlier trend. **By the year 2000, the number of young adults potentially entering the labor force will decline by more than 20 percent.**

Changing demographics and growth in the economy could reduce competition for entry-level jobs. But will employers hire the poor? The poor are likely to lack work experience or have other characteristics that make them less attractive to employers than other workers. Consequently, employers may attempt various strategies to deal with labor shortages. Employers may convert jobs to part time to encourage entry of non-poor women or to make it easier for retired workers to reenter the labor force. Tightening labor markets may also encourage immigration, legal and illegal.

Although these trends could reduce the employment opportunities of the poor, it is unlikely that they will overshadow the favorable impact of the decline in entry-aged workers. **The key issue, of course, is whether the nation will take advantage of the demographic opportunity by running a high-employment economy.** Only jobs can provide opportunities for America's poor. **The second key issue is whether the poor will be equipped with the skills and abilities needed to take advantage of those opportunities.**

The poor face other barriers to labor force entry. Many can not make adequate child care arrangements or can not afford child care. Those with little previous work experience may not have internalized the norms of the workplace. Job-seeking skills may also be lacking. In some cases, discrimination against minorities continues to keep minorities and women out of all but the worst jobs. Without access to decent wages, benefits, and opportunities for training and advancement, many poor persons will be denied the traditional American route to self-sufficiency through work.

The Role of Employment and Training

Clearly, the outlook for the nation's poor depends on how well their entry and reentry into the labor market can be managed and how well they can take advantage of training and advancement opportunities once they are employed. Effective entry and advancement both depend heavily on education and training.

The education, employment and training programs that began with the War on Poverty and continue today did not seem to help the poor much during this period. Although rigorous evaluations of employment and training programs are scarce, most agree that these programs have not greatly improved the conditions of the poor.

The lackluster performance of many employment and training programs in the seventies and early eighties emphasizes the importance of the economy, particularly the level of unemployment, in helping the poor. Public programs, though important, make adjustments at the margin. By themselves, they cannot fundamentally change the prospects of the poor.

Job placement programs cannot work without jobs. Moreover, a slow economy creates disincentives for program participants. If there is little hope that the program can lead to a better job, there is less incentive for program participants to persist in rigorous training programs. For example, if low-skill, minimum wage employment is what the participant will get even after training, there may be no financial incentive to continue. **Thus, economic growth is a necessary prerequisite to effective employment and training programs.**

POLICY IMPLICATIONS

The Task Force rejects the idea that there is a conflict between helping the poor and helping the economy. If a high employment, labor-scarce economy is achieved, the productivity of every potential worker becomes important. For this reason, programs that remove the barriers that prevent the poor from entering the labor market become more than programs for the poor. They become strategies for maximizing economic growth.

To bring the poor into the labor market will be easier in the next few decades than it has been, but it will still require substantial investments in education, in training and retraining, and in support services and benefits. Our policy recommendations, therefore, fall into the following areas:

- **Economic policy: creating the jobs** -- running a high employment economy that creates jobs at non-poverty wages for most workers.
- **Guaranteeing access to employment opportunities** -- through anti-discrimination policies and efforts to create opportunities in those neighborhoods least responsive to changes in the national economy.
- **Investments in the productivity of the work force** -- through education, training and retraining.

We discuss our recommendations below. The Task Force believes that, in the long run, substantial progress in the reform of welfare will depend on progress in these areas. Conversely, if unemployment remains at more than 7 percent, there will be severe constraints on what can be accomplished through welfare reform. If the education and training of the poor continue to be neglected, the nation can look forward to a drag on our economy and ever-increasing social problems.

ECONOMIC POLICY: CREATING THE JOBS

This Task Force is not a body of macroeconomists, and it is not within the scope of this document to recommend specific macroeconomic policies. We can, however, state some general principles which should guide the formation of public policies about the economy:

- **Fiscal and monetary policy** should be deployed in a combination which maximizes the stimulus for non-inflationary growth.

- **The poor should not bear the burden of controlling inflation.** Unemployment should not be used to fight inflation. The control of inflation is obviously important, but better and fairer means must be found to keep it in check.

- **Policies are needed to make American goods more competitive on international markets.** For example, most economists feel that reducing the budget deficit will reduce pressure on the value of the dollar and help American goods compete at home and abroad.

- **Education and training programs must focus on creating a highly skilled labor force.**

- **The fundamental goal of economic policy should be ensuring productive employment and an adequate standard of living for our citizens.**

We are not advocating the "trickle down" theory of how economic growth helps the poor. The idea that the poor will be helped by growth alone is simply misleading, because it ignores the need for mechanisms that link the poor with the benefits of growth.

GUARANTEEING ACCESS TO EMPLOYMENT OPPORTUNITIES

Running a high-employment, high-productivity economy is necessary, but not sufficient for reducing poverty. Society, as part of its obligation to those who seek public assistance, must ensure that the employment opportunities generated by a high-employment economy are actually accessible to the poor.

Discrimination

Even a high-employment economy and an excellent educational system will leave some people at the end of the labor queue. Historically, assignment to these places in the labor market has been concentrated among minorities and women partly as a result of discrimination.

Race- and gender-based discrimination are important causes of the low wages and the weak labor market position of women and minorities. Any comprehensive approach for dealing with poverty must include a commitment to overcoming discrimination and its effects. Government has a responsibility to use its position as regulator, employer, and purchaser to influence the labor market conditions confronting disadvantaged groups.

Eighty percent of all women working outside the home work in occupations that are seventy percent or more female. Research has repeatedly shown that the more an occupation is dominated by women, the less it pays. Minorities are also concentrated in low-level jobs, often with intermittent employment and little job security.

We support anti-discrimination efforts and affirmative action as a remedy to occupational segregation that leaves minorities and women concentrated in low-wage, dead-end jobs. We recommend that affirmative action be pursued at all levels of government and that the private sector be encouraged to follow suit.

We are convinced that pay equity will help overcome wage discrimination against minorities and women. **We recommend therefore that public sector pay equity adjustments be made at every level of government and that government urge private business to examine its compensation policies for pay inequities.**

In New York State, for example, studies of the Civil Service system were commissioned as a result of negotiations between the unions and State. They found significant pay inequities in minority- and female-dominated job titles. On average, jobs held predominantly by women are underpaid two salary grades. To remedy these inequities, New York has allocated $75 million, or 1 percent of total salaries, for pay equity adjustments covering about 77,000 employees.

Economic Development Efforts in Distressed Communities

One of the most important barriers to labor market entry is the condition of our poorest inner-city neighborhoods.

An improved national economy will help these areas to some degree, but special efforts must be made to bring jobs and other benefits of economic growth into these neighborhoods. Even during the 1960s, a time of low unemployment, many depressed neighborhoods had high local unemployment rates and high poverty. In general, targeted location incentives alone have not been very successful in the past. Tax forgiveness, site development and other incentives, especially when offered on a regional basis, are costly to the state that offers them and can be duplicated by neighboring states and regions. Such incentives can lead to a competitive situation in which each state or region offers incentive packages of roughly equal value. Ironically, the firm making the location decision is then forced to choose based on other considerations.

Nevertheless, we do see a role for economic development initiatives on the neighborhood level. One type of development is that which strengthens the social support structure within the community. Many of our community development efforts in the past either bypassed the existing community-based organizations or even competed with them. This approach did not work. Instead, community economic development should focus on the resources within communities, by supporting infrastructure development and aiding local businesses and entrepreneurs.

One of the worst problems in most poor neighborhoods is **the wretched condition of the housing stock.** Without decent and affordable housing, those community residents who do get jobs may move out, leaving the neighborhood without positive role models and hurting the social support structure of the community. The

Local Initiatives Support Corporation (LISC), a national non-profit lending and grant making institution, is a good model of how to improve the housing stock and the community support structure at the same time. LISC provides funding and technical assistance to community-based organizations to make improvements in distressed neighborhoods. LISC also helps the organizations to draw in private sector financial and technical resources.

For example, LISC has provided assistance to Inquilinos Boricuas Accion (IBA) in Boston, which integrates social and economic development. IBA built and now manages a low-income housing complex and commercial space. It is finishing a community center, which it will also rent as theater space. The organization provides a range of social services to the residents of the neighborhood, most notably a drop-out prevention program. In the process, IBA has become a formidable neighborhood institution.

Another example of successful economic development accomplished through community-based organizations is the South East Bronx Community Organization (SEBCO). Begun through the church and community organizations, SEBCO is a community development corporation whose primary strategy has been to upgrade the housing stock. SEBCO renovated over 2,000 units of housing and now manages them, and residents of these units pay no more than 30 percent of their income for rent.

Another type of economic development for distressed neighborhoods involves helping community residents to start new businesses. The Community Service Society, a long-standing non-profit social service agency in New York City, helped the Cooperative Home Care Association to get its start in January 1985. A worker-owned company based in the South Bronx, it provides home health care for residents of the area. The company employs about 120 persons, mainly black and Hispanic women. Alternative employment for most of these people would be temporary and sporadic part-time work. Training for employees is paid for by JTPA/PIC and Regional Economic Development funds -- about the only public subsidy the project receives. This model illustrates how social and economic goals can be achieved simultaneously.

These model programs show that bringing about improvements in local economic conditions is possible, particularly if government works with the strength of the community. Such measures can help ensure that economic growth reaches into our poorest communities.

CREATING A FIRST-CLASS LABOR FORCE

Better job opportunities and access, while vital, solve only part of the problem. The poor are often unable to get and hold good jobs because they lack basic literacy and specific skills. Particularly as we enter a period of relative labor scarcity, all citizens need to be literate, skilled and productive.

There are three ways in which citizens learn the skills and competencies needed for productive work:

- Through public and private education, which provides the foundation of basic literacy and mathematical competency.
- Through learning skills on the job, either through a formal training program or, more often, through direct on-the-job experience.
- Through compensatory job training and education programs, often administered through the welfare system.

In recent years, none of these three routes has adequately served the poor.

Too often, the education system does not prepare poor and minority youth to be productive members of society. In New York State, there is an attrition rate of over 30 percent between 9th grade and graduation, a rough estimate of the drop-out rate for an entering 9th grade class. For minority students in New York State, the situation is far worse: more than half of a black ninth grade class and more than 60 percent of Hispanic students do not graduate on schedule.

A general lack of opportunities for private sector training, which hurts the competitiveness of the US economy, makes it difficult for those with the poorest preparation to enter jobs that provide training. **The United States, alone among the western industrialized**

nations, does not have a systematic approach for preparing the non-college educated for productive employment.

Compensatory job preparation and training programs can theoretically make up for failures in the educational system and the private labor market. They can teach basic job-seeking skills, such as reading want ads, applying for a job, and writing a resume. These programs can also help people learn about the expectations of the workplace, and provide the opportunity to be "certified" to employers as someone who has the desire and ability to hold down a job. But they, too, have had a mixed record, in large measure because they were rarely tied to specific jobs. They may have improved the job preparation of participants, but not enough to make a difference in a labor market with high rates of unemployment.

We will discuss our recommendations for reforms in each of these areas in turn.

INVESTMENTS IN EDUCATION -- THE CORNERSTONE

Employers often are willing to provide training specific to their firm or business, but need a literate, highly-motivated work force to begin with. The education system must give poor people the foundation of literacy they need to be a part of a productive, trainable labor force.

The education system must prepare students with at least the basic literacy, computational, and problem-solving skills to compete in the labor market or go on to college. The modern economy demands increased flexibility on the part of employees and more frequent retraining of employees throughout their work histories. The school system must produce students proficient in basic skills and equipped to continue learning throughout their lives.

The nation has recognized the need for substantial reforms in public education. We do not wish to duplicate the efforts of the various panels, commissions, and government agencies that have spoken on the issue of education reforms. At times, however, the education reform movement may have neglected the special needs of poor and disadvantaged students.

The Task Force believes that the educational system can better serve the poor through the following measures:

- More and better preschool education to reduce educational deficits for poor children.
- A renewed emphasis on basic skills at the elementary and secondary level, with special attention to disadvantaged students.
- Increased attention to the transition from school to work, through cooperative arrangements with the private sector rather than attempts to teach job-specific skills -- which are better taught on the job.
- Programs to combat teen pregnancy and dropping out, particularly in high-poverty areas, building on the many noteworthy programs now springing up from community-based organizations
- A much greater degree of support for adult education, including basic literacy, English language training, and high school equivalency diplomas.

Preschool Programs

To succeed in school, children need to be emotionally, socially and intellectually prepared. Sadly, too few poor children now enter school with the necessary preparation. Enriched preschool education programs can help poor children avoid falling behind from the start.

Currently, preschool attendance differs significantly by income level. By 1984, some 37 percent of all three and four year olds in this country were enrolled in nursery schools, pre-kindergarten, or kindergarten, excluding programs in day care centers and family day care. However, only 17 percent of three year olds and 33 percent of four year olds from families with incomes under $10,000 were enrolled. In contrast, 54 percent of all three year olds and 67 percent of all four year olds from families with incomes of $35,000 or more were in such programs.

The benefits of high quality preschool programs for poor children are well documented. For example, the Ypsilanti, Michigan, Perry Preschool Program demonstrates the effectiveness of targeted early intervention in enhancing progress through school. A study from a Head Start program in Harlem found that participants had to repeat a grade about half as often as students in an experimental control group. Other studies corroborate this finding and show less frequent placements in special education and lower drop-out rates for preschool participants.

Parental participation in early childhood education is beneficial for the child, and can also serve as a vehicle for delivering services to adults. Preschool programs may also ease the problem of finding quality child care for many parents, especially if they are coordinated with school age child care programs and transportation arrangements for after school care.

The Task Force strongly endorses expansion of Head Start and other enriched preschool programs to include, in the long run, all three and four year olds. We should begin by expanding the availability of preschool education in poor neighborhoods. States and local governments should aim for 100 percent enrollment, starting with four year olds, with federal aid for programs in disadvantaged neighborhoods. This may be the most important investment that can be made, both for the students themselves and for society.

The Elementary and Secondary Schools

The public school system is the cornerstone of attempts to build the work force into an internationally competitive one. **The school system must teach students basic literacy, computational and problem-solving skills.**

To prevent higher standards from increasing drop-out rates among poor students, new standards must be combined with ways to help low-achieving students meet those standards. Frequent testing aimed at diagnosis and remediation rather than competency alone can help students achieve at grade level. The key to success is to begin these efforts early on, rather than to confront students in 12th grade with tests they cannot pass.

Schools in poor neighborhoods. Nowhere is the task of improving the quality of the schools more important, or more difficult, than in our poorest neighborhoods. Inner-city schools in poor neighborhoods have often ceased to function as educational institutions. Given the conditions in such schools and the negligible prospects for learning, it is not surprising that many students decide to drop out.

Intensive efforts to improve proficiency and to prevent drop-outs will directly confront the intersection of poverty and educational deprivation in these schools and communities. The schools also can serve as focal points for the efforts of educators, parents and community organizations to change the expectations of the students.

A number of model programs prove that inner-city schools can be turned around. For example, the School Development Program, founded by Professor James Comer at Yale University, began in 1969 in two of New Haven's most troubled schools and is now being introduced throughout the New Haven school system. The academic program is tailored to the needs of students as measured by performance on standardized tests as well as staff and parent assessment of student needs and strengths, with special individualized programs developed for at-risk students. The program brings resources from the community into the schools to provide a comprehensive approach to students with academic and social problems. Parents of students work, at the minimum wage, in the classrooms and encourage other parents to participate in the program.

There appear to be dramatic results in the participating New Haven schools: attendance is among the highest in the city, behavior problems have been reduced, test scores are significantly higher than for the city's other schools, and staff attendance is among the best in the city.

Another approach emphasizes the relationship between a student's experience outside of school and his or her academic performance. Alexandria, Virginia, for example, has a multi-cultural, multi-lingual program called "In Any Language: Parents Are Teachers." The program, designed to provide practice in English for students with limited proficiency in English, sends students home with practical activities for parents to do with their children, with instructions written in English and in Spanish, Khmer, Lao or Vietnamese. Teachers reported that parents became more involved with their child's school experience and were more active in school conferences and programs.

The business community also recognizes that the work force of the future is in the public schools today. A good example is Join-A-School, the New York City arm of Adopt-A-School -- a nationwide program that seeks to link community, business and government organizations with schools. Chemical Bank, for example, has been working with the George Washington High School for a number of years. Among other activities, the Bank provides 45 students with summer jobs, some of which become permanent after graduation, but most of which are explorations into professional career possibilities. Executives from the Bank teach once a week in the Junior Achievement classes, and staff from the Bank teach students how to apply and interview for jobs. Chemical Bank sponsors scholarships of $1500 per year for four years to students to go on to college. Perhaps the most important contribution that Chemical Bank makes to the students of George Washington High School is in letting the students know that someone cares about them.

Overcoming language barriers. Many students, particularly in the inner cities, will be immigrants and others who have not received a basic education in their homelands. They will speak and read English with difficulty, if at all. Schools must work toward guaranteeing that these children both receive education in basic skills and learn to read and speak English fluently.

New York, in particular, must address the special needs of students who do not speak English well enough to succeed in the labor market. For example, in 1980 more than 40 percent of the New York State residents who were not born in the 50 United States did not have a high school diploma, compared to 18 percent of the native-born New York residents. Among Puerto Ricans, the situation is even more serious: nearly two-thirds of the New York residents born in Puerto Rico did not have a high school diploma.

The drop-out problem. The alarming number of drop outs cannot be reduced by the educational system alone. The inability of the labor market in economically depressed areas to provide jobs for those who graduate from high school makes persistence seem futile to students, particularly those who are struggling.

At the same time, difficulties in school often lead to dropping out: poor grades, inability of students to get along with teachers or administrators, and frequent suspensions. Young women often cite family-related reasons for dropping out, usually pregnancy or marriage, in addition to school-related reasons. Pregnancy prevention programs are necessary but will not completely address the problem of young women dropping out.

The high school drop-out rate in New York forces drop-out prevention strategies to the forefront of our educational reform agenda. **Drop-out prevention efforts cannot wait for students to reach high school.** The effects of a good educational system are cumulative, so that those students who fall behind early on have the greatest chances of not being able to succeed in school.

Students who understand the connection between staying in school and reaching their goals in life have the motivation to stay in school. Building that understanding is the best drop-out prevention strategy. Thus, the programs listed below under the heading "The Transition from School to Work" can also be thought of as drop-out prevention strategies.

Doing more than educating in the schools. Schools must serve as focal points of early intervention for services other than education. Since attendance is mandatory, all but a handful of children are accessible through the school system. **In particular, dramatic intervention is necessary to reduce pregnancy among teenagers.** In 1983, there were almost 500,000 births to teens, nearly 30,000 of them to girls under 15. Women who begin parenting in adolescence face diminished odds for educational and economic success. Teen mothers are more likely to be poor, less likely to eventually marry and on average get less education than their peers who did not become parents.

The participation of the community in designing and implementing teen pregnancy prevention strategies will guarantee that programs are appropriate to each community. We recommend that appropriate sex education and family planning services be made available through the cooperation and assistance of parents and community organizations. In addition, guidance in career opportunities for young women should begin in junior high school.

Part of convincing teens not to get pregnant is helping them think about what their choices are and what they want to accomplish in life. The Teen Outreach Program, which originated in St. Louis, Missouri, has a curriculum that focuses on building self-esteem, and preparing students for the world of work. It includes contraceptive and sex education and topics like family relationships and sex roles. The program also involves volunteer work in the community, usually one afternoon a week. In 1985, Teen Outreach was operating in 24 locations around the country, serving more than 300 students. An evaluation of the program suggests that participants are less likely to get pregnant or fail school courses than their control group counterparts. Since pregnancy is a principal cause of dropping out among girls, Teen Outreach also helps keep girls in school.

Each One/Reach One is a companion program in Milwaukee, Wisconsin which pairs black girls, ages 7 to 17, with black professional women who serve as role models. Since 1981, Each One/Reach One has served 93 young women. All the young women come from single-parent homes and 87 percent were born to teenage mothers, yet only one has gotten pregnant. Such programs work because they provide support for students within their own community, and help students to understand the alternatives available to them.

The Transition from School to Work

Links between school and work must concentrate on keeping teens in school until graduation. "Mentoring" programs, linking students to particular occupations over a period of time, and summer employment programs are effective ways to move students into jobs.

The place of occupationally specific training in the educational system should be clearly delimited, and should not substitute for teaching basic skills. We concur with conclusions of the Committee for Economic Development:

> Unfortunately, whether measured by future earnings, job placement, or employment success, there is today little evidence that vocational education is either meeting the needs of students or of the employers who are expected to hire them. Moreover, vocational education too often perpetuates sex role stereotyping and tracking of minorities into inferior programs.

Cooperative education may be more effective than vocational education in finding jobs for students. We suggest programs that tightly link student participation to a definite job, both to motivate the student and to keep the programs in touch with the needs of the labor market. Any training program that links a student to a specific job should require that the student stay in school to continue in the program and complete high school to be hired permanently by the employer.

One promising model is the New York's School to Employment Program (STEP), which provides economically disadvantaged 16 to 19 year olds with work experience, on-the-job training and job placement while encouraging them to complete their education. The program has an in-school component for students at risk of dropping out and an out-of-school component for youth who have already dropped out. The in-school program sets up a bargain between the student and the school which requires participants to maintain satisfactory school performance and attendance to be eligible for up to 1000 hours of employment at or above the minimum wage. Students receive on-the-job training in the private sector while employers are subsidized up to 50 percent of the student's wages through Job Training Partnership Act (JTPA) funds.

In the out-of-school component, community-based organizations work with teens who have dropped out to establish a work-education bargain. The organization provides work experience or on-the-job training programs; in exchange, the teen agrees to participate in GED classes, basic skills programs, or job readiness training. In 1984-85, STEP served 2,718 disadvantaged youths in New York State; 90 percent either returned to or graduated from school, received a GED, continued on in higher education or obtained unsubsidized employment.

The Task Force believes investments in programs like STEP should be increased. School systems should also experiment with school-to-work links for 14 and 15 year old students, before they are old enough to drop out legally.

Adult Education

No matter how good the educational system, there will always be a demand for compensatory education at the adult level. The inevitability of some students' continuing to drop out despite our best efforts at educational reforms, drop-outs seeking to resume education, workers trying to improve their skills, and non-English speaking residents looking to become more employable create a need for programs that provide continuous opportunities for basic education.

Our society spends vast sums of money on college education, and everyone agrees such expenditures are important investments in the economic and social future of our nation. But only 16 percent of persons 25 or older had graduated from college in 1980. **Fully one-quarter of our citizens and half of the poor never graduated from high school; our investment in them is just as important.** Yet the national expenditure on adult education is only a tiny fraction of the expenditure on college.

The commitment to adult education and to English language instruction must be particularly strong in the schools serving poor communities. Adult education should provide adequate financing to encourage low-wage adults to participate and should be able to accommodate the work schedules and the interests of working people.

Adult education need not be done in a traditional school setting. In Buffalo, for example, the Everywoman Opportunity Center, Inc., provides services to women in the greater Buffalo area who must enter or re-enter the work force but who lack the necessary skills, work experience or confidence. The Center served 1,780 clients during the 1984-85 program year. The Center creates links between a variety of local agencies and organizations to provide women with comprehensive educational and job readiness services. An innovative aspect of the Center's programs is a tuition voucher system through which participants can gain access to no-cost vocational coursework on a full-time, part-time, day or evening basis.

INVESTMENTS IN TRAINING -- PRIVATE AND COMPENSATORY

The need for training and retraining is growing as the economy evolves. Fewer and fewer jobs involve rote performance of a task on an assembly line. More and more involve interacting with people in the service sector, or working with more complex and technical equipment, even in the basic industries. To remain competitive, the labor force will need to be flexible, literate, and capable of being retrained on a regular basis.

The essential roles for government intervention in this area are:

- to ensure that sufficient training opportunities exist in the private sector by running a high-employment, high-productivity economy and by aiding in the financing of employer-specific training;
- to make sure that the poor have the basic skills and credentials that will enable them to compete for and get into private sector jobs with training opportunities, either through the education system or through compensatory training programs.

Private Training and Retraining

Private businesses spend about $30 billion per year on training and retraining workers -- roughly half the cost of higher education in America. A more extensive and systematic training effort is needed to upgrade the skills of America's sizable non-college-educated work force.

Private sector training opportunities are often unavailable to poor and disadvantaged workers. One study found that disadvantaged persons are nearly four times less likely to receive training as the average worker. In part, this reflects the low likelihood of getting training in the first five years in the labor market. Thus, those who have difficulty developing an enduring attachment to the labor market will tend to receive less training. The study also found that "formal schooling is an important determinant of post-school investments in training," and that "the likelihood of getting most kinds of training rises with the level of schooling attained."

This finding reinforces the crucial role of the education system in preparing citizens to take advantage of labor market training opportunities. Education does not tell the whole story, however. Non-white men are "significantly less likely to get most kinds of training even after controlling for observable worker attributes." Areas of persistently high unemployment also showed lower levels of training, pointing out that local economic conditions are also important in determining who gets training.

Increasing Private Sector Training Opportunities

Employment and training programs should be viewed as economic as well as social policies. The labor force of the future will include fewer new workers, with a greater portion of them members of minority groups. Neither the nation nor New York can afford to have a growing portion of its labor force unprepared for work at the same time that businesses are finding it harder to fill jobs.

The Task Force recommends that the model for disadvantaged workers should be a partnership between government and industry that combines economic and social objectives. A public/private training strategy has the advantages of recognizing the link between social and economic objectives, and of conducting training in an actual work environment, with a real job attached as an incentive.

Past attempts to increase the level of private sector training in the private sector through public subsidies have been largely unsuccessful. Employers are often unwilling to accept any significant government role in the hiring and training process. There are, however, successful programs that may serve as models.

An example is the New York State Employee Specific Skills Training Grant Program, which allows employers to upgrade the skills of their existing employees and thereby create new openings for entry-level workers. In Buffalo, the Materials Management Association of Western New York has upgraded the skills of central service technicians for six local hospitals through training at Niagara County Community College and in a clinical setting. The Niagara Private Industry Council subsidized the training of entry-level workers to move into the places vacated by upgraded workers.

The partnership between government and the private sector in an economic development strategy should revolve around mutual commitments that ensure that jobs created by companies using government financial or other assistance will be available to employable public assistance recipients. Companies can receive training subsidies, such as those available through the New York State Training and Employment Assistance Program (TEAP), in return for hiring public assistance recipients on these projects.

The Task Force believes that by creating a high-employment economy and by helping to finance private training efforts, the United States can spur productivity growth and adaptation to a changing economic environment. There is no better way to provide opportunities to escape poverty while benefiting the entire society.

The Role of Compensatory Training Programs

There is little incentive for businesses to invest training funds and effort in new labor force entrants with low skill levels. Thus, there will continue to be a role for compensatory public sector training programs. These programs help the poor take advantage of the opportunities in the labor market so they can become self-sufficient. They also help to ensure that enough trained, employable workers are available to meet the needs of the labor market.

Skill development and job placement are the two main functions of compensatory training programs. The placement function helps improve the functioning of the labor market by matching workers with their current skills to existing jobs. The training component helps to increase a worker's productivity by teaching new skills or developing work habits necessary to perform a job.

The distinction is not as clear as it might appear, since the best way to help someone learn new skills is often to get them into a job or job-like setting. Similarly, applicants who have skills and are ready to work may be shunned by potential employers who want to see some certification of the client's job readiness, which a training program can provide.

The available evidence suggests that training and work experience programs seem to be most effective for people entering the labor force for the first time or re-entering after a long absence.

In addition, findings across many studies show that women experience post-program earnings gains that are consistently and substantially larger than those for men and are sustained over a longer period of time. Many types of programs seem to work for women, perhaps indicating that what many women need most is a helping hand to get into the labor market. Despite this, the post-program earnings for women remain lower than those for men due to low wages and occupational segregation of women.

Current employment and training programs appear to lead to little improvement in the job prospects of men who have been in and out of the labor market in a series of low-paying, unsteady jobs. In part, the Task Force believes that this poor performance reflects the poor economic and demographic conditions of the past few years, but it also reflects the more intensive needs of this group.

The record of employment and training programs for disadvantaged youth is mixed. Evaluations of the supported work program show no significant increases in earnings after participation in work experience programs. Evaluations of Job Corps programs suggest a positive impact may result from an intensive residential program of support and training.

Many public assistance recipients, particularly new entrants to the labor market, have benefited from many of the state's current programs. New entrants, including many women on AFDC, youth, and displaced homemakers, are more likely to need and benefit from employability development and job search assistance. Disadvantaged workers, those who have a history of bad experiences in the labor market, tend to need more extensive interventions to finance sustained periods of human capital development, such as supported work and on-the-job training.

MAKING WELFARE REFORM POSSIBLE

For welfare reform and anti-poverty policy to be effective, we must also make progress towards a high-employment, high-productivity economy, and towards a first class education and training system.

Economic growth is the main vehicle for progress against poverty, but growth must be linked to increasing the productivity of the labor force. Macroeconomic growth alone, especially when fueled by unsustainable levels of deficit spending, will not improve the competitiveness of American businesses, or provide decent job opportunities for Americans. Access to new jobs, better networks with private sector employers, anti-discrimination efforts, and community economic development are also important to ensure that the benefits of growth are shared.

A first class education and training system will also be needed; without adequate education and training, poor people will not be able to take advantage of new job opportunities. And without a well-educated and trainable labor force, the economy will not be able to achieve high levels of employment and productivity. Education and training policies are vital not only for improving the economic prospects of the poor, but for creating and sustaining a healthy economy that will improve the standard of living for all Americans.

Chapter 4

Welfare and Work

In this chapter, we present our proposals for changing the relationship between welfare and work. We believe that these proposals follow from the new social contract and represent the model toward which our social policy should strive. In the next chapter, we outline some of the measures we can take now to begin moving toward our new system.

The Task Force believes that work should be the cornerstone of the reform of welfare. The effectiveness of work-based reforms will depend not only on the economic and educational policies described in the previous chapter, but also on policies concerning the working poor. Those who live up to their obligation to work should have access to wages, benefits, and services that allow them to support their families. We believe that most public assistance recipients, including parents of young children, prefer work to welfare, and that it is reasonable to expect them to prepare for work if appropriate services are provided. AFDC and our other public assistance programs should be restructured to incorporate new expectations about obligations of recipients to work or prepare for work on the one hand, and obligations of government to provide services, training and jobs on the other hand.

Thus we envision a broad set of social reforms:

- o **Meeting our responsibilities to those who work** by providing support for families with children in which the adults work but the family income remains below or near poverty.

- **Providing time-limited transitional income support and education and training services** for those, including single parents, who are temporarily out of work or having difficulty entering the work force.

- **Providing guaranteed and required work** for those who remain unemployed after receiving services in the transitional program.

- **Providing income maintenance for the disabled** -- those who are physically or mentally not able to work -- as well as medical and social services to improve the quality of their lives.

These proposals are firmly rooted in the mutual obligations of the individual and society. They are also based on the notion that poverty is a diverse set of problems. For some of the poor, poverty is the result of low wages and benefits in the available jobs. For others, poverty is the result of educational and skill deficits that could be remedied by opportunities to prepare for the labor market. Single parents may be poor because absent parents are not paying their fair share of the costs of raising the children. Others may not be able to find employment even with training, yet they are able to work; the answer is to provide a job, not just a check. Still others are simply too disabled to work. Our approach addresses each of these groups separately.

MEETING OUR RESPONSIBILITIES TO PEOPLE WHO WORK

The Task Force believes that **people who work at full capacity should be able to expect, in return, that they will be able to escape poverty and provide for their families.** This is not now the case:

- Almost two-thirds of the non-elderly, non-disabled poor live in households where someone works at least part of the time.

- More than 9 million persons older than 15 who worked in 1985 were poor. Of those, almost 3 million worked 50 or more weeks in 1985 and were still poor.

- In 1984, 13.5 percent of those who worked full or part time had no health insurance at all; they comprised more than half of all those without health insurance.
- In 1984, nearly 6 million workers were paid the minimum wage or less. Two million were full-time workers.

Many entry-level jobs, the type of jobs usually available to poor persons, pay wages that leave even small families in poverty. These jobs often do not provide health insurance, and the costs of child care can wipe out the meager earnings of many single parents.

Jobs that are irregular and pay low wages, and a lack of access to child care and health insurance, put many working-poor families in a terrible bind. Most are not eligible for welfare. If they are, AFDC or general assistance at least provides Medicaid and a steady stream of income, however low. If they attempt to work, their benefits after allowing for work expenses are reduced dollar for dollar. After payroll taxes are deducted, the recipient may actually have **less** take-home income for each hour he or she works.

Thus the dilemma. Welfare, though meager, is financially better than the work opportunities available to many welfare recipients in the current economic environment. Many have assumed that the way to overcome the dilemma is to make welfare worse. We disagree. Instead, we propose to improve the rewards associated with entry-level work and to improve the links between welfare and work.

Making Work the Best Alternative

We recommend the following government actions to meet society's obligations to the working poor.

- We urge elimination of the gap in **health care coverage** between Medicaid and employer coverage. The working poor and those near poverty should have access to health care through full or partial subsidies.

- We urge a much greater emphasis on ensuring access to **affordable child care**, particularly given the vast increase in labor force participation among women.

The earned income available to working-poor and near-poor families must be increased to reduce dependence on government.

- We recommend **revising the tax system** to allow working-poor families with children to keep more of their earnings and, in some cases, to supplement those earnings.

- We propose **revising the minimum wage law** to keep pace with productivity and wage increases generally.

Single-parent families need these supports and more to accomplish the difficult and expensive task of raising children. Child support from absent parents is critical to enabling single-parent families to avoid poverty.

- **We recommend improved child support enforcement and a minimum child support benefit that will make it possible for single parents to avoid welfare by combining child support and part-time work.**

Health Care

The most pressing health-care problem facing the working poor and those close to the poverty line today is their increasing tendency to be without any form of health insurance. Medicaid, the major health care program for the poor, excludes most working-poor families because it is largely limited to public assistance recipients and the poor elderly. Despite the existence of Medicaid, 2.5 million poor families have no health care coverage. The situation for those near poverty is even worse. We estimate that half of those with incomes between 100 and 150 percent of the poverty line -- another 2.1 million families -- have no coverage at all.

Health care coverage has often been an important benefit of working, but it can no longer be taken for granted, especially in low-wage jobs that do not provide an income sufficient to purchase private coverage. In the last eight years, the number of non-elderly people without coverage has grown faster than the population. In 1984, one in six Americans of all incomes under the age of 65 did not have health insurance coverage of any kind. **Almost 19 percent of all children did not have coverage.**

The Task Force believes that government has the obligation to ensure access to health care coverage. Those who meet their social obligations of working should not be denied the health care coverage that most people consider a minimum condition for self-sufficiency. We believe that health care coverage must not be restricted to selected groups of poor people or people who hold certain kinds of jobs.

We propose that government ensure access to basic health care coverage and make it available free of charge to the poor and for a sliding fee based on income to others. It could be provided through capitated cost-controlled plans, such as Health Maintenance Organizations.

Meeting the health care needs of the medically indigent will be an expensive and complex undertaking. Moreover, the government should supplement, but not replace, the system of employer-provided health coverage. Ways must be found to prevent employers from using our new system as an excuse for dropping their current health plans. Progress must be made, however, since the lack of coverage for the working poor and near poor traps people on welfare and creates strong disincentives to work.

Child Care

As greater numbers of women with young children work or participate in education and training programs, child care will become an even more critical issue than it is today. The Task Force's welfare reform strategy is based on the notion that single parents and others will become self-sufficient largely through their own work. Increasing access to quality child care will increase the likelihood that these parents can and will work at least part time. Without child care, our efforts at education and training opportunities may be wasted.

Working families use a variety of child-care arrangements, such as split-shift arrangements, baby-sitters including relatives, family day care, nursery schools, school-based arrangements and child care centers. Choices among arrangements are often based on family values and the ages and needs of the children. Many poor families, however, find their choices limited by the high cost of some child care arrangements. Working single parents in particular may have great difficulty finding acceptable child care at a cost they can afford.

The Task Force believes that government intervention and subsidies are appropriate to expand the child care choices of poor working parents. We do not advocate government-operated child care, but rather increasing the access of the poor and near poor to a number of different child care alternatives. This requires flexible arrangements and subsidies, carefully targeted to make the best use of resources.

We recommend a number of steps to achieve this:

- Our recommendation to **expand preschool enrollment** eventually to include all three and four year olds covers some of the children of working poor and near poor families.
- **Substantial investments and public subsidies** will be needed to increase the affordability of quality child care. These subsidies should be directed first at participants in welfare and work programs, and then on a sliding fee basis to the working poor.
- Subsidies should be made available in such a way that families have **considerable flexibility in choosing arrangements,** although some degree of registration or licensing should be required.
- **The child care tax credit should be expanded and made more available.**
- Parental leave and flexible working hours may aid parents in arranging care, especially for infants.

We believe that the educational system must play a large part in our overall child care strategy. The current norms regarding school hours evolved during a time when most children lived in families where the mother did not work. Yet most women, including mothers of young children, now work. Just as we expect the educational system to adapt to changes in the economy, it must also respond to the changing needs of families. For example, we could experiment with coordinating preschool programs with after-school care; extending the school day and moving to full-day kindergarten; and expanding experimental summer programs.

Tax Policy and Income Supplements for Working Poor Families

For most people, the greatest reward of working is the ability to support their families on the income they earn. Tax policy should not stand in the way of the working poor and the near poor realizing the rewards of work.

The new federal tax law is a major step in the right direction. It eliminates federal income taxes for most people below poverty and for a significant number just above the poverty line. We believe that the states should move quickly to ensure that their tax policies do not impose tax liability on this group. New York State, for example, has already eliminated taxes for the poor.

Expanding the Earned Income Tax Credit (EITC) is an important additional step to further increase the available earnings of low-income people. Under the new tax law, a family of four at the poverty line in 1988 would receive an EITC tax rebate that only partially offsets the family's Social Security tax payment, producing a total tax burden of $310. Thus, there remains room for improving the EITC.

We also propose that the EITC vary by family size. Under the new tax law, the maximum credit a family can claim is raised to $800 by 1988 and would be phased out for workers earning between $9,000 and $17,000. While this is an important step, it does not respond adequately to the needs of working poor families, especially large families.

Varying the EITC by family size would approximate a children's allowance for low-income families. Every industrialized country except the United States recognizes the importance of children through some sort of universal child allowance. Using the Earned

Income Tax Credit to increase the earned income available to working-poor and near-poor families will bolster the efforts by parents to support their children through work.

Minimum Wage

The minimum wage has been updated about every five years since it was first enacted in 1938 to keep pace with productivity increases and the resulting increases in the general wage level. Each adjustment brought the minimum wage to approximately half the average wage in manufacturing. In the interim, the minimum wage is eroded by inflation and rising labor productivity. Today the minimum wage is 38 percent of the average wage, its lowest relative point since 1949.

Families with a single wage-earner working at the minimum wage are now almost certain to be poor. In 1985, a family of four with one person working full time, full year at the minimum rate fell more than $4,000 below the poverty line. Even a family of four with two wage earners, one working full time at the minimum and the other working half time at minimum wage, remains poor.

We recommend that the minimum wage be raised and indexed to return to its historic pattern, even though we recognize some problems with doing so. By indexing the minimum wage, we will reinforce the wage floor and the purchasing power which the minimum wage establishes. While we do not expect raising the minimum wage to have much impact on poverty by itself, it is consistent with and reinforces increases in the productivity of the work force that are part of our overall strategy.

There could be some loss of employment due to a rise in the minimum wage. It is generally accepted that the employment effects of an increase in the minimum wage are greatest for teenagers and that a 10 percent raise in the minimum wage could result in a 1 percent decline in employment for teenagers. The effects for other groups are less clear. While some measures might be needed to lessen the impact on teens, it is important to move forward to help those low-income families in which the adults are working at the minimum wage.

Assured Child Support

Most single parents work. But most women who head families find it difficult if not impossible to support their families through their own work alone. Their wages are often too low. Moreover, the costs of child care and the demands of being a parent make it very difficult for single parents to work full time. Work at low wages, even full time, is not enough to move single parents out of poverty, and part-time work is almost never enough, even at better wages.

The obvious income supplement for single parents is child support. Unfortunately, another principal cause of poverty among children in single-parent families is the lack of financial support by the absent parent. The solution is to compel the absent parent to meet his or her responsibility by paying a fair share, and to supplement that amount when it is inadequate to support the basic needs of the child. The principle underlying the concept is simple but powerful: a child's right to the support of both parents does not depend on the choices the parents make about their marital status.

The probability that a custodial parent will both have a child support award in place and collect the full amount due is about one in four. This is unfair to families, children, and taxpayers. The Task Force believes that the situation justifies a major effort by states and the federal government to increase the number of awards, their level, and the degree of enforcement. A greater reliance on child support stresses individual responsibility, and can also help to mitigate poverty among children.

The goal of child support enforcement should be to help single parents to be self-sufficient without relying on welfare. Recent efforts to improve child support collection have made important strides toward this goal, but improved methods of collecting child support are not enough to promote the self-sufficiency of single parents. More needs to be done to integrate child support efforts into an overall emphasis on self-sufficiency. Increased child support enforcement services for custodial parents not on welfare can be part of a strategy of welfare prevention.

Child support can provide an alternative to welfare for many single parents by providing a supplement to work. Few single parents combine welfare with work at all, partly because welfare benefits are reduced dollar for dollar of earnings (after deducting work and child care expenses). In contrast, child support provides an income base that can be supplemented by as much earned income as the single parent can obtain. **Adequate child support combined with part-time work would often be enough to get single parents off welfare and out of poverty.**

Minimum Benefit

We believe that the benefits of child support and work as the basic income sources for single parent families are sufficiently great to justify public investment. This involves not only **guaranteeing** child support so that custodial parents can count on it, but also **supplementing** the payments of absent parents, when necessary, to ensure an adequate level of support. In some cases, absent parents cannot afford to pay a level of child support that would allow a working single parent to become self sufficient.

To improve child support the Task Force therefore recommends the following actions:

- **Increase the federal and state resources spent on locating absent parents and establishing awards for both welfare and non-welfare custodial parents.** Even in cases where the absent parent has few resources, establishing parental responsibility is important, embodying the notion that both parents have an obligation to share their income with their children.

- **Implement in every state a child support award formula** that sets a societal standard for the appropriate level of child support awards. Awards should be established as a percentage of income. Child support set as a percentage of income protects the children from erosion of the value of the award by inflation.

- **Awards should be collected whenever possible through wage withholding.** Under this plan, absent parents would not have the option of not paying or delaying payment until court action is threatened, a common tactic today. Children would be guaranteed a steady flow of support payments, provided that the absent parent is employed.

- **A minimum child support benefit should be established to prevent child support payments from falling below the minimum needed to care for a child.** The custodial parent would receive the minimum payment or the child support payments made by the absent spouse, whichever is greater. With assured child support and part-time work, single parents should be able to escape welfare and poverty.

Making Self-Sufficiency Possible

Child support alone cannot end poverty among children, but it can begin to address one of the main causes of such poverty, the lack of parental support. **An emphasis on parental responsibility can provide a platform from which single parents, particularly female family heads who make up the bulk of single parents, can reach self-sufficiency through their own work.**

Each of the reforms suggested above works toward the idea that someone who works at full capacity can provide for his or her family.

- For single parents, this may mean combining part-time work, child support or the minimum benefit, and child care.

- For married couple families, a higher minimum wage, and an expanded Earned Income Tax Credit may be the keys to escaping poverty.

These reforms are essential preconditions for a meaningful reform of welfare. To facilitate the transition from welfare to work, we have two choices: we can make welfare worse, or make work better. We have tried to make welfare worse for the last ten years by letting the real value of AFDC benefits decline substantially, and that has not done much to reduce dependency. **The Task Force believes it is time to try the other approach: enhancing the status, dignity, and rewards of work.**

REFORMING WELFARE

Some people have argued that welfare has actually made poverty worse. We believe that there is little evidence to support this statement and much to refute it. Welfare has done little, however, to help end poverty. This is not surprising. In the long run only inclusive economic growth can reduce poverty. Nevertheless, we believe there is a great deal of room for reform within the various programs we call welfare, provided that we move simultaneously to improve the economy, education, and the conditions of entry-level work.

The AFDC program was created many years ago on the assumption that caretakers of young children should not work. The intent of the program was to provide support for as long as it was needed to families deprived of a breadwinner. Society's attitudes towards women and work have changed, however, and the AFDC program is slowly changing with them. For many, AFDC now serves as a program that helps overcome a family break-up, loss of a job, or other personal crisis. If we assume that single parents are able to work at least part time, then almost all current public assistance recipients should be thought of as "in transition" to employment.

To reflect these changed expectations, AFDC and to some extent other welfare programs should be redesigned to clearly reflect their orientation toward work. **The Task Force proposes the restructuring of AFDC into two new programs:**

- **A time-limited transitional program of temporary income support and service delivery in preparation for work.**
- **A guaranteed work program for those unable, after a period of time, to make the transition to unsubsidized employment.**

Basic income support for those who are not expected to work because of physical and mental disabilities would, of course, be preserved.

In both programs, recipients incur obligations in return for benefits. In the transitional program the obligation is that of preparation for work through education, training or employment related activities. In the program of guaranteed and required work, the obligation of the recipient is to work for wages.

THE TRANSITIONAL PROGRAM

The transitional program is designed for those families where the responsible adult or adults are able to work but are not currently working at full capacity. The major purpose of the transitional program is to help those who can work to enter or return to the unsubsidized labor market. The program will also serve persons who are employed full time but still have incomes below the state AFDC eligibility level (mainly large families). For the latter group, the goal of the program is to upgrade skills as a means toward higher wages.

The recipient accepts several obligations in return for the income support his or her family receives from the program. The most important is to participate in education, training and placement activities in a coordinated plan to achieve self-sufficiency.

All recipients are expected to participate, including single parents. Obviously, recipients would be exempt from requirements for an appropriate period of time following the birth of child. During the period after birth, both the health of the mother and the developing relationship of the mother and child take priority. After this exemption, however, single parents would be subject to the same requirements as other recipients. For example, teen mothers would be required to finish high school if they had not already done so. The state, for its part, is obligated to help the recipient identify and meet his or her needs.

The main features of the transitional program are:

- **Counselling, testing, and assessment** to help participants make the most advantageous use of the services available.

- **Time-limited contracts**, signed by the recipient and a caseworker, clearly delineating the rights and responsibilities of the client and the state and local governments.

- **Intensive education, training, placement, and supported work** targeted to those who can most benefit from the different types of services. Participants would face different options and requirements based on their job-readiness and family situation. For example,

    - recipients without a high school degree could sign a contract that outlined a plan for achieving literacy and getting a GED;

    - recipients who are literate but lacking in job skills or experience could be placed in classroom training or on-the-job training;

    - recipients with some work experience might benefit most from placement assistance and other employment-linked activities, such as supported work.

- **Increasing focus on placement** as a recipient's time in the transitional program nears its limit.

- **Support services**, principally child care for single parents. Support services should be provided in the same system as those for the working poor, to minimize disruption as the recipient earns his or her way off of welfare.

- **Income maintenance** to support program participants during their participation in the program's other services. The ideal level of support would be a package of benefits about equivalent to the poverty line.

The program would not be limited to single-parent families. The Task Force believes that broader eligibility is essential to make sense of our current patchwork of programs. A child in a two-parent family has no less need of food and shelter than a child in a single-parent family. In the long run, single persons and childless couples might also be eligible, but at this stage limited resources should be devoted to reducing poverty among children. Thus, the extent and nature of the program for single persons and childless couples should remain the prerogative of individual states.

How the Transitional Program Works.

The key to the transitional program is a system of services and requirements that are time-limited and change as the client progresses, designed to ensure that the program is indeed temporary. **Experimentation is needed to determine the best arrangement of time limits, requirements, and services.** Moreover, different states may find arrangements that make sense given the conditions of the local economy, the capacity of the state to deliver services, and the characteristics of the caseload. The details outlined below are meant merely as an illustration of how our program could work.

In theory, the program would require participation of all recipients, including those with young children. In practice, our ability to require participation by single parents with young children may be limited by the availability of child care, especially in the near term. Our more immediate goal is to provide child care and the program's employment and training services to all single parents with children three years or older or to those who have already been on the program for three years.

Teen parents applying for aid would be required to complete high school, or adult education if the school environment is not appropriate, regardless of the age of the child. Ideally, child care should be provided in the school environment. In this way, we can prevent a teen from dropping out and developing educational deficits which are harder to correct later on.

A much greater emphasis would be placed on child support enforcement activities. Single parents already are required to name the absent parents, but until recently state agencies have often been lax in pursuing awards against the absent parents. Greater resources are needed to get child support awards in place, even if the absent parent is not able to contribute much. For one thing, it is important to establish the award in case the absent parent's income increases over time. For another, legally establishing the relationship may lead the absent parent to take a more active role with the children.

Once an award is established, absent parents with low income should have access to training subsidies and placement assistance to help them meet their obligations to their children. Cases of parents without child support awards in place would be reviewed each time the recipients' contracts were renewed to determine why the absent parent still had not been located. The support award helps form the basis for establishing self-sufficiency, by combining work with support payments or the minimum benefit.

For single parents with young children, the contract would require participation **on at least a half time basis** in a structured set of program activities. (Exceptions might be made, of course, for the parents of disabled children or others requiring special attention.) Single parents with school-age children would be expected to participate on a two-thirds to full-time basis.

In two-parent families, at least one of the parents would have to be involved in program activities on a full-time basis. That could mean a half-time work experience slot for part of the week combined with a basic literacy course for the remaining time. In recognition that both parents may have to work if the family is to achieve self-sufficiency, the other parent might also be required to engage in education or training activities, depending on the ages of the children and the availability of child care.

The particular activity would be jointly determined by the recipient and a counselor, and would depend on the job readiness of the client. For example, if the client was already literate and a high school graduate, he or she might be limited to choosing from among employment-related services. The final choice, however, should be made by the recipient and based on his or her employment goals. The activity would be specified in the contract, and failure to carry out the activity without good cause would subject the recipient to some degree of sanction.

Each contract could combine several of the program services, depending on the needs of the client. Poor performance in a training program, e.g. poor attendance, could close off that avenue to the client. The focus, however, would be, "We will provide support and services for a period of time, which we will help you to take best advantage of." The recipient would know that at the end of the transitional program, the program of guaranteed work provides less flexibility.

In the first contract, emphasis would be placed on achieving basic literacy and obtaining a high school diploma or the equivalent. Then, depending on job readiness and previous experience on public assistance, recipients might be limited to choosing from among activities directly related to finding employment or gaining work experience, although they could pursue adult education in addition to employment activities. This implies a much greater role for the caseworker in assessing and advising the client than is currently the case.

The Level and Type of Income Maintenance

Three principles underlie our philosophy about the income maintenance component of the transitional program:

- Aid should be administered in a **humane and simple** way that does not imply blame.
- It should be **adequate**. In the long run, we believe that the full package of benefits should bring families with children to the poverty line.
- It should be designed in such a way as to **encourage the transition to work**. In other words, working should be more rewarding than not working. Thus, we must be careful to compare the wages and benefits available for entry-level work to the benefit level, pointing out the importance of the proposals regarding the working poor discussed above.

In the short run, the total income support amount would continue to be a combination of a grant, food stamps, shelter and energy allowances, and so on. In the long run, some of the benefits could be "cashed out" to reduce administrative costs and allow recipients greater freedom to allocate their resources. Certain benefits, however, should not be cashed out under any conditions, namely those that have long-term benefits to society. **Education and training, for example, are not provided merely to improve the quality of life of the recipients, but to produce an "external" benefit for society.** Similarly, it would be foolish to cash out health insurance, mainly because we want the poor to have access to more preventive care which improves their health and saves society money in the long run.

What Happens Next?

We expect that the vast majority of clients will be able to make use of program services so that they will move quickly into unsubsidized employment. Some clients will be found to be unable to work at some point during the transitional program period. They would transfer to the program for those unable to work described below.

Recipients able to work who have exhausted the time period for receiving services move to a different program, with different obligations and expectations. The benefits in this program are provided only in exchange for work. Thus, there is an incentive for recipients to make the most of the opportunities and services provided in the transitional program during the time allotted.

THE GUARANTEED WORK PROGRAM

Not everyone who is poor is "in transition" or able to become self-sufficient, even with education and training. Based on recent studies of longitudinal data, it is estimated that 16 percent of the current AFDC caseload are adults who are able to work and who have been on welfare for more than three years. (Three years is a time that might roughly correspond to the time limit in the transitional program.)

This is the maximum size of the group that could move into the program of guaranteed and required work. The actual size of the group that remains unemployed after participating in the transitional program is dependent on a number of factors. For example, the level of unemployment, how well schools prepare people for work, and how well the transitional program helps make up for educational deficiencies will all affect the number. Obviously, health insurance for all people who work, a higher minimum wage, better enforcement of child support, and child care for the working poor will also help to reduce the number.

The basic idea of the program for those who are able to work and who have exhausted the time limit of the transitional program is to **provide and require work** in return for benefits. In the guaranteed work program:

- The recipient is offered **the opportunity to work for wages.**
- Work is required, in that **the recipient is paid only for hours worked.**
- Instead of a benefit check, **the recipient receives a paycheck.**
- The benefit level stays the same as in the transitional program, by regulating the number of hours the client can work at the publicly provided job.
- Recipients are assigned to jobs in public agencies or non-profit organizations.
- The jobs are **productive jobs** in the sense that they are useful from society's point of view, not make-work.

The Task Force believes that work at a subsidized job is better than collecting benefits. The experience of working to earn benefits helps the recipients keep in contact with the requirements of the workplace. People working in guaranteed jobs could still participate in education and training, but on a voluntary basis scheduled around job hours.

The program does not change the level of benefits, only the form in which they are delivered. By providing and requiring work for those unable to obtain unsubsidized jobs, our program provides aid in a way that is both more helpful to the recipient and more consistent with American values than the current welfare system.

Workfare, Public Sector Jobs, or What?

Our proposal differs from the traditional notion of "workfare," although lately the term is used to refer to almost any work/welfare strategy. In many people's minds, however, workfare means "working off the grant" and is advocated as a means of forcing unwilling recipients to work. Our proposal is quite different:

- Our proposal starts with the assumption that recipients would prefer to work. The guaranteed work program offers recipients the opportunity to earn their benefits in exchange for productive work.
- The program enables the recipients to establish an employee/employer relationship and gain transferable work experience. In each job, the recipient would have a supervisor, clearly specified responsibilities, and so on.
- The intent is not to harass the client or to drive down welfare costs. Careful design of the program will be required to ensure the due process rights of recipients.

Similarly, our proposal differs from a call for a broad public sector jobs program. In the first place, only a small portion of the caseload would receive subsidized jobs. Secondly, the level of wages would be limited to the benefit level of the transitional program, so that in many cases the job would not be full-time. The guaranteed work program is not a countercyclical jobs strategy, but a change in the way public assistance is provided. The recipient benefits by having the opportunity to work, learn new skills, and gain experience. Society benefits by virtue of the work performed and the increase in the productivity and self-esteem of those who participate.

The guaranteed work program incorporates the best elements of the "workfare" and "public sector jobs" strategies. From the former, it draws the notion that persons in need of aid should contribute to their own support; from the latter, that people are willing to work and just need the opportunity.

What Types of Jobs Are Provided?

The Task Force recognizes that there has been a long debate over the possible ramifications of public sector work for welfare recipients on regular civil servants. Fears of job displacement and downward pressure on wages are not unreasonable. We believe public sector unions should help the states identify work opportunities that are useful and productive but do not impinge upon current civil servants. Keeping these jobs few in number will help.

There is no shortage of work to be done. A survey by the Department of Labor in 1979 concluded that there were three million jobs that could be provided if all unmet public sector needs were simultaneously addressed. The kind of jobs we would hope to create are those that might not be funded by the limited resources of local governments unless money were made available from another source, such as saved welfare payments.

The jobs will be expensive to create, supervise and administer. Limiting public sector employment only to those who have not been able to attain self-sufficiency helps to keep the cost of the program within reasonable bounds. Moreover, the limited nature of the guaranteed work program we advocate does not encourage dependency on the government as an employer for those who can and should compete in the unsubsidized labor market.

Level of Benefits

The only benefit provided in the work program, aside from health insurance and child care, is the opportunity to earn wages up to some benefit level. In most cases, the jobs would pay the minimum wage. Participants are paid for the actual number of hours worked and receive regular paychecks. Their income would be subject to income and social security taxes, although persons earning at or below the poverty line would pay little or no taxes. The total monthly net earnings from the guaranteed job would be equivalent to the benefit available to the same size family in the transitional program.

No one would be expected to work more than full capacity -- for example, 25 hours for single parents with young children, and full time for others. In two-parent families, if no young children are present, both parents might be expected to work: one parent full time, the other part time. Specific requirements are best worked out by individual states, and would depend in part on the ability of states to see that participants have access to child care and other support services.

In a few cases, mainly in single-parent families, the required number of hours at the minimum wage might not reach the benefit level. Any difference between the participant's earnings at the maximum number of hours of work and the benefit level would have to be made up through a grant. For two-parent families, this would only be necessary for very large families, presuming that one parent can work full time and the other part time. For many single parents the difference could be made up not by a grant, but through child support payments, the minimum child support benefit, or a combination of both.

How the Program Works

An illustration of the interrelationships among programs may clarify our intent.

A single parent with a school age child exhausts his or her time in the transitional program and remains unemployed. He or she is not disabled, and is referred to the guaranteed work program. Instead of receiving a cash benefit, the single parent is provided with the opportunity to earn about the same amount in wages through a subsidized job in a public agency or non-profit organization. The maximum net earnings are controlled by limiting the total number of hours the individual can work. The hours of the job are arranged to coincide with the child's time in school. For parents with younger children, the program will provide child care.

The parent receives an assignment to a job. The job helps the recipient learn new skills and build self-confidence, but eventually the limitations of the job also become apparent. For example, there is no chance of promotion and the job pays the minimum wage. After consulting with a counsellor in the program, the recipient re-attends a job training program after work that builds on the skills he or she has been learning on the job. Eventually, the recipient gets an unsubsidized part-time job. Combining 30 hours of work with a minimum child support benefit and subsidized health insurance, the parent leaves the guaranteed work program.

What if We Do Not Have a High Employment Economy?

One major question about the guaranteed work program, of course, is what happens during periods of high unemployment. Most cyclical unemployment is short term. Shifts in the economy should not, therefore, have dramatic effects on the numbers of people who exhaust the benefits of the transitional program before finding employment.

Some increases will occur, however, and require states to respond. **In times of high unemployment, we believe the federal government should promote employment growth through fiscal and monetary policies.** If the federal government is unresponsive to the pressing needs of the unemployed, however, the states may be forced to extend the time persons can stay in the transitional program, particularly in on-the-job training and supported work for those who are job-ready and should be working.

SUPPORT FOR THOSE UNABLE TO WORK

The Task Force believes, as do most Americans, that **people who are unable to work because of age or disability should be supported without harassment at a decent level of income**, even if long-term support is required. Thus, all our proposals presuppose the continued existence of the Supplemental Security Income program (SSI), the principal program to support indigent disabled persons. We also believe that several small modifications can improve SSI and make it more consistent with the other parts of our plan.

Before discussing those modifications, however, we would like to point out that having a disability is not the same thing as not being able to work. Persons with physical disabilities hold down jobs of almost every description, and many more could if more were done to remove barriers to participation. Accessible public transportation, medical and social support services, and anti-discrimination measures are important and we can do more in these areas.

In contrast, the focus of this discussion is on people who simply cannot work because of physical or mental disability. In the current system, they must meet a very strict set of criteria to be eligible for SSI. They must have a disability that is expected to last for at least one year. Thus, a person who has a heart attack, a minor stroke, a car accident, etc., and needs time to recover cannot receive income support through SSI. If they do not have disability insurance through an employer, they are likely to have no source of support and may end up on AFDC or general assistance.

The Task Force recommends that the federal disability system should cover disabilities of less than one year's duration. Poor people with temporary disabilities currently receive aid from states' general assistance programs, which provide widely varying amounts of assistance. We do not believe that people who are unable to work should be in either the transitional program as we have described it or, obviously, the guaranteed work program. People whose disabilities are expected to be only a few weeks or months may be thought of as in transition and could remain in the transitional program. The exact cut-off is of necessity somewhat arbitrary; nonetheless we believe that support of the temporarily disabled should not be left to the patchwork of states' general assistance programs, but should be consolidated under SSI.

An additional criterion for SSI eligibility is that a person must be so disabled that he or she cannot do any job that exists in the economy, even if that job is not available in the area or the person would have to be completely retrained. Little if any efforts are made, however, to help the person denied eligibility to locate a job he or she could do, to move to the new location, or to be retrained.

The Task Force recommends that SSI eligibility should not be an either/or process. In other words, if people are too disabled to continue in their present occupation but could perform another with training and assistance, then support should be provided that enables such persons to make the transition. These services may be available through the transitional program or state vocational rehabilitation programs, depending on the specifics. SSI should be modified to incorporate direct links to such services and to fill whatever gaps exist.

For temporary disabilities that prevent someone from working or taking part in the transitional program's services, including drug or alcohol addiction, **support would be contingent upon participation in a treatment program**. Persons whose drug and alcohol addiction have been brought under control by treatment may then shift into the transitional program, if they are capable of eventually achieving self-sufficiency. The same is true for other temporary disabilities that are treated successfully.

CONCLUSION

We have presented an approach to welfare reform that takes into account the diversity of the causes of poverty and the relationships between the economy, the wages and benefits of entry-level work, and the various purposes of public assistance. Our program can eliminate the dichotomy between welfare and work by making public assistance a means by which one acquires the skills and opportunities to become self-sufficient.

The policies we describe embody a new understanding about the nature of public assistance. AFDC began as a program that provided support to dependent children whose caretakers were not expected to work. The transitional program we have described has a different purpose: to help people develop their capacity to do productive work and achieve self-sufficiency. The guaranteed work program ensures that the opportunity to do productive work for wages is available, even to those who cannot find unsubsidized jobs.

The changes we advocate are major and cover a broad spectrum of public policies. They cannot be implemented overnight. Thus, in the next chapter, we outline a strategy for getting from here to there, and discuss the changes that can be made in next few years. Reforms will not be easy nor will they be without cost, but they will be well worth it. They will move us toward a new social contract in which both the individual and society recognize and fulfill their obligations. Only then will we be able to help all members of society become productive, increasing our prosperity and strengthening our national community.

Chapter 5

Getting From Here to There

In the previous chapters we have outlined a vision of a new social contract, based on a recognition of mutual obligations and responsibilities and on the diversity of the poor. The new social contract helps the nation's poor by providing the means and the opportunity to achieve self-sufficiency. The contract helps the nation as a whole by investing in our most important resource: the productive capacity of our citizens. It also strengthens our nation's dedication to a just and open society.

In developing this new vision, we are not rejecting existing programs or the efforts of the past. Nor are we advocating a sweeping and sudden change -- a dramatic piece of comprehensive legislation that with one stroke of the President's pen abolishes old programs and replaces them with new. Instead, we believe that we must approach our new vision incrementally, by building on the good features of existing programs, phasing out bad features, and gradually developing and establishing the new elements of our vision.

Our recommendation to proceed incrementally is based on several fundamental recognitions.

- **We recognize much that is good in existing social welfare programs.** Basic welfare programs, while flawed, embody our commitment to caring for the needy. Many education and training efforts have been successful. Cash assistance programs for the elderly have been very successful in moving them out of poverty. We want, therefore, to take advantage of the good features in existing programs.

- **We recognize the interrelationship of the various aspects of our program.** A healthy economy and a productive labor force are the foundation of our whole approach. In addition, each proposed program depends on the existence of the others: a guaranteed work program must be established for a time-limited transitional program to make sense; conditions for the working poor must improve, so that entry-level jobs will allow families to make the transition off of income maintenance programs. Therefore, we need a strategy that develops the programs in an appropriate sequence and recognizes that some things will take longer than others.

- **We recognize the political and practical difficulty of sudden, comprehensive change.** Our program includes many complicated concepts with important details yet to be worked out. We also recognize the desirability of considerable state and local flexibility. Previous efforts at comprehensive reform, for example Nixon's Family Assistance Plan and Carter's Program for Better Jobs and Income, foundered on political and design difficulties. For all these reasons, we are committed to an incremental rather than an all-or-nothing strategy.

- **We recognize that full implementation of our vision requires substantial changes in how social welfare agencies perceive their functions and do their business.** Our program will be complicated to administer and manage. Development of organizations and people will take time, a further reason for an incremental approach.

The strategy outlined in the rest of this chapter attempts to incorporate these considerations. First, we describe a general strategy concerning the division of responsibility among federal, state and local governments. This leads us to suggest a short-term state agenda and a short-term federal agenda. The chapter also discusses our estimates of the costs and benefits of the program.

SUMMARY OF RECOMMENDATIONS

We begin by reviewing the major recommendations made by the task force. In summary, they are:

- **Creating conditions in which self-sufficiency is possible,** through macroeconomic policies, anti-discrimination efforts, and investments in the productivity of the labor force.
- **Meeting our obligations to those who work,** particularly the working poor and those near the poverty line, through ensuring access to affordable health insurance and child care, through the expansion of the EITC, through the enforcement of child support and a minimum child support benefit, and through fair and adequate wages.
- **Supporting people in transition,** through a time-limited public assistance program which emphasizes the mutual responsibilities of recipients and society in working toward self-sufficiency, by providing and requiring participation in education, training, supported work, and placement opportunities.
- **Providing the opportunity to earn wages for work to those who are unable to find unsubsidized jobs,** through the provision of jobs in public agencies or non-profit organizations.
- **Providing income maintenance and support services for those who cannot work due to physical or mental disabilities** through a modest expansion of the SSI program and better links to vocational rehabilitation, training and social services.

In the next sections we explain how these objectives can be achieved.

GENERAL STRATEGY

Moving toward our new social contract will require simultaneous actions by federal, state and local government. Many of our recommendations require modifications or extensions of existing programs. Others require new programs, or new combinations of existing programs. Many of these new elements need to be worked out during a period of vigorous and flexible experimentation. **The states have an obvious leadership role in this process.** They are the sites of the most interesting current innovations in education, welfare and the provision of services. **States, including New York, have a rare opportunity to put new ideas to work**, while at the same time pursuing necessary changes at the federal level.

Division of labor among levels of government.

This strategy of innovation and change by the states while building a federal foundation is based on several assumptions about the appropriate division of responsibility among the different levels of government. These assumptions can be summarized as follows:

- **State and local governments have primary responsibility for the funding and operation of education programs, including adult education and compensatory training.**

Education is historically the primary responsibility of the states and localities, a situation which, especially in times of federal budget deficits, we see no reason to suggest changing.

- **State and local governments and private agencies ought to have primary responsibility for operating preschool education, training programs, employment programs and services. The costs of these should be shared by the federal government.**

- **When there is a diversity of effective approaches to delivering services or solving problems, state and local governments ought to have considerable flexibility in designing programs to meet their own needs.**

State and local governments tend to be closer and more responsive to communities and individuals than the federal government. They are able to provide a variety of diverse approaches to problems that respond to local needs. The costs of programs that invest in the poor, however, are appropriately borne at least partly at the federal level.

- **State and local governments should bear primary responsibility for designing and conducting experimental programs, though the federal government should help in funding, evaluation, and dissemination of the results.**

Identifying cost-effective approaches to social problems requires innovation and experimentation. States and localities are the most appropriate places to carry out these demonstrations. States and localities, however, have little incentive to conduct careful program evaluations, which often require expensive data collection and analysis. Because these efforts can have payoffs beyond their local communities, it is appropriate for the federal government to invest in what is analogous to research and development activities.

- **Federal, state and local governments share the responsibility for anti-discrimination and affirmative action efforts.**

Historically, the federal government has taken the lead on civil rights issues, but all levels of government have the obligation to eliminate discrimination and move towards a community in which all citizens have equal opportunities.

- **The federal government should have primary responsibility for financing income maintenance programs and health care programs for the poor.**

Because we have a national economy, poverty is also a national responsibility. A system in which people have incentives to move from state to state seeking higher welfare or medical benefits, and in which the poorest states have the heaviest burdens, is neither sensible nor fair. The larger tax base of the federal government also makes it the logical locus for financing income maintenance and health care programs.

- **The federal government has primary responsibility for the overall state of the economy.**

The American economy is basically a national economy. Individual states and regions are dependent on overall monetary, fiscal and trade policy.

This responsibility to use macroeconomic policies to create and maintain a high employment economy is the most important role for the federal government in both the short run and the long run. In the context of a healthy economy, states can proceed to develop and put in place many of our proposed programs for the working poor and for welfare reform. We therefore turn first to a short term agenda for the states. Following that, we outline steps for the federal government to take in the short term to supplement the activities of the states.

SHORT-TERM STATE AGENDA

There are several areas in which states, including New York, can take action quickly.

Other elements of our program, such as assured child support, a time-limited transitional program, and the guaranteed work program break new ground. There is a great deal we still do not know. Although these should eventually be federal policies, **states must take the lead in designing, testing and evaluating pilot programs.**

The short-term agenda contains some proposals that we believe are feasible and affordable in the next few years, and about which we know enough to move forward. For some elements of our program, such as preschool education and providing child care for the working poor, the problem is not knowledge but cost. In our agenda, we spell out ways to implement these proposals slowly, starting with the groups in greatest need. We list the proposals and, where appropriate, discuss the costs and benefits of carrying them out.

The items for short-term state action include:

1. **Expanding the education reform movement to include the concerns of the poor, particularly through expanding preschool programs, improving the conditions in inner-city schools, increasing efforts to keep students at grade level, and linking jobs and other benefits to staying in high school.**

2. **Making a serious state commitment to adult education.**

3. **Reforming state tax codes so that poor households pay no state or local income taxes.**

4. **Continuing efforts in child support by implementing guidelines for awards, increasing the resources for enforcement, and initiating automatic wage withholding.**

5. **Expanding training, child care and other services programs designed to aid the working poor and help welfare recipients leave the rolls.**

6. **Implementing comparable worth pay increases in the public sector.**

7. **Experimenting with investments in poor communities.** A whole variety of programs need to be developed and examined to determine the most effective ways of improving conditions in these communities. These programs should build on the strength and commitment of existing community-based organizations.

8. **Beginning to restructure state public assistance programs toward transitional services and guaranteed work**, by taking concrete, immediate steps such as:

    -- Expanding work and training programs connected to welfare, which many states have or are putting in place.

- Making these opportunities available to parents of young children on a voluntary basis.

- Increasing the resources devoted to child support enforcement on behalf of single parents on AFDC.

9. **Conducting local demonstration projects on the more innovative aspects of our program, such as:**

   - **The transitional and guaranteed work programs.** Demonstrations can test different types of contracts, different lengths of time, different services packages, and different ways of administering the provision of public sector jobs for those who cannot find unsubsidized jobs.

   - **Requirements to work or prepare for work for parents with young children,** starting with those whose children are three or older.

   - **Assured child support programs.** Delivery mechanisms and benefit levels need to be experimented with.

Costs and Benefits

Most of the activities on the state agenda should be thought of as investments in the future productivity of the states and their citizens. Their short-term costs should thus be looked at in conjunction with their long-term benefits.

Education. Our education proposals augment current reform efforts with a special concern for the educational needs of the disadvantaged.

Our proposals for preschool education are costly and should be implemented in stages. We recommend beginning with four year old children in poor neighborhoods. The next step is a program which serves all poor four year olds. Eventually, preschool programs should serve three and four year olds in all school districts. Such programs not only provide educational benefits, but are a part of the child care package that helps the working poor.

In high schools, closer attention must be paid to helping at-risk students to stay in school. Primary strategies are early intervention to keep students achieving at their grade level and linking jobs, scholarships, and special summer programs to staying in school.

The **returns** on investment in education have been amply documented elsewhere. The Committee for Economic Development, a group of business leaders and education professionals, states in its report, **Investing in our Children**:

> The best current estimate of average rates of return on our investment in schooling ranges from 7 to 11 percent after inflation, which makes education a very good personal and societal investment. Even when the costs incurred by society in providing education are excluded, schooling returns more to the economy than it takes out.

The Committee goes on to point out that failure to address our educational needs could have severe economic costs:

> From an economic standpoint, [poor education] means that a sizable pool of our labor force will be made up of people with marginal skills who are poorly matched with the job market. The result would be chronically higher rates of unemployment, higher welfare costs, less personal income, and a smaller tax base.

Of all the possible reforms in education that might help poor and minority students, **preschool programs appear to be the most cost-effective way of producing significant cognitive and non-cognitive results**. Currently, fewer than one quarter of the eligible children are served by Head Start at a cost of $1 billion. The Task Force recommends extending Head Start to all four year olds who live in poor neighborhoods as an initial step. If we define poor neighborhoods as census tracts where the poverty rate is over 20 percent, the cost of this proposal nationally would be $340 million over current expenditures.

Our other proposals, such as drop-out prevention and linking jobs to staying in high school, have been proposed by many other organizations and we defer to their discussions of the specific costs and benefits. **Increased expenditures on education are investments that pay off from society's point of view, even if we do not include the social benefits and the improved quality of life of the children whose education is improved.**

Working single parents and child support. Recent legislation has dramatically increased the emphasis that government places on establishing and enforcing child support orders. States are now required to have guidelines for awards and to establish automatic payroll deductions after only one month of arrearages. These steps, in addition to other enforcement techniques, have established the basic principles underlying our child support proposals. The Task Force recommends continued emphasis on enforcement and two additional measures: stricter guidelines for awards and immediate automatic wage withholding.

These steps will increase the cost of child support administration. Yet current child support enforcement activities for AFDC recipients return far more in collections from absent parents than they cost. Thus, they are cost-effective even before considering the additional long-term benefits of upholding the notion of parental responsibility. Additional resources for child support enforcement activities for the absent parents of children on AFDC actually save the government money.

Benefits are also greater than costs for enforcement activities directed at the absent parents of children not on AFDC, though measurement is less clear. Such expenditures are part of a welfare prevention strategy, enabling many women with marginal incomes to avoid welfare altogether. There is a bipartisan consensus that this is a worthwhile strategy; the 1984 child support amendments to the Social Security Act, which required states to make child support enforcement services available to non-AFDC custodial parents, was passed **unanimously** by the U.S. House of Representatives and overwhelmingly by the U.S. Senate.

Assured child support. In some cases, the absent parent's income will be low or irregular, so that the child support payments are not enough for the single parent to achieve self-sufficiency. The Task Force proposes a system in which the government assures a minimum child support level so that the flow of child support payments to the custodial parent is regular and sufficient. Wisconsin is implementing an assured child support program on a demonstration basis, and New York State is considering a similar proposal.

Most of the single parents who would receive a publicly subsidized benefit will already have been receiving AFDC. There is little or no additional cost in such cases, depending on how the program is implemented, because the child support benefit replaces AFDC dollars. In addition, there will be increases in work effort among the custodial parents, resulting in less dependency over time and greater tax revenues. The cost of the minimum benefit also depends to some extent on the success of the enhanced enforcement efforts. The AFDC savings that result from increased collections will partly or fully offset the cost of the minimum benefit.

Child care. Providing quality child care is expensive, but child care is essential to make working possible for many of the poor, especially single parents. In the short run, child care may be one of the more expensive parts of our strategy. Yet in the long run, we expect the benefits to outweigh the costs. Single parents who work can leave welfare, support their families, and pay taxes. As they work, they develop their skills and credentials. Their children may benefit from quality child care programs, and perhaps more importantly by having role models of working parents. Not all of these benefits will show up labelled as such, so child care will remain an expensive item from a budgetary point of view.

Because child care is expensive, we recommend proceeding in stages. First, appropriate child care should be provided for all participants in welfare/work programs. Next, child care should be subsidized for a short period of time for those who leave welfare. Child care subsidies should eventually be made available to all the working poor and those near poverty **on a sliding fee basis**, perhaps financed through federal block grants to the states.

The cost of providing child care depends on how quickly we move to make child care available to the working poor, the near poor, and the middle class. To make child care available to all poor and near-poor families could cost several billion dollars. These costs need not, however, be incurred immediately.

One of the initial steps in transforming AFDC might be to require program participation from single parents with children 3 years or older. Twenty-two percent of the caseload would face new requirements, those with a youngest child aged 3 to 5 -- about 800,000 cases. For our estimate, we assume that about three quarters would make use of the child care subsidy. The average number of children per case is 1.9, though not all of these are 3 to 5 years old. After-school care for the older children is less costly. If the average cost of child care for the 3-5 years olds for 25 hours per week was roughly $200 per month, and one-third of the care was provided through preschool education programs, the remaining two-thirds would cost $1.2 billion. The cost of care for older children in the family might be an additional $500 million. Some of this care is already provided through various funding state and federal funding sources, such as the social services block grant.

Transitional support programs. The states are already experimenting with programs that begin to turn AFDC into a transitional, work-oriented program. Although state programs vary in structure and details, most of them embody some combination of education, training, employment and support services that we envision as the heart of the transitional program.

Most states offer their programs on a voluntary basis to women with young children, and some are experimenting with requirements for this group. Some states even include the notion of "contracts" between clients and agencies, specifying the activities that clients agree to participate in during a set period of time, including sanctions if the recipient fails to fulfill the terms of the contract. These are positive developments.

States' ability to implement work, education, and training requirements will depend in part on how quickly they can move to provide opportunities for work and training and the necessary support services. The principal is **mutual** reponsibility. To expect more from recipients, government must also keep its part of the bargain.

These programs can be expected to save money over the middle term. Most evaluations show positive net benefits for programs of services that are reasonably well designed and targeted. They require some initial investment, but should result in a shortening of the average length of time recipients are on welfare sufficient to more than cover the costs.

Because of the complex intergovernmental funding arrangements, the total now spent on employment and training programs for AFDC recipients is not known for certain, but is about $300 million. However, many recipients are now exempt and some programs are part-time or sporadic in nature. To calculate the training and education services costs of our program, we need to estimate the number of participants and the average annual cost per participant.

Based on the number of adults on AFDC, less the disabled, those now working and those we expect to be in the guaranteed work program, we expect that education and training services will be needed for 1.4 million persons. Current annual administrative costs for supported work and grant diversion programs are about $750 per person. Adult education costs about $900 and classroom training costs about $1800, computed on an annual basis. Placement activities, such as job clubs and job exchanges, have highly variable costs. We will use $2000 as the annual base cost of an intensive service delivery package.

Thus, the total program costs, less current expenditures, would be $2.6 billion. These investments can pay off in several ways, both direct and indirect. When recipients are able to get unsubsidized jobs, costs are reduced in a number of programs, including AFDC, Food Stamps, and Medicaid. **A three month reduction in the average duration of a recipient's time on welfare would totally offset the direct costs.** Indirect but equally important benefits include increased literacy and a more skilled work force.

Guaranteed work programs. Work experience, supported work, grant diversion and similar programs are consistent with the concept behind our proposed program. We would encourage states to experiment with the staging of these programs, which would then lead logically to a division between transitional and guaranteed work programs.

Existing work and welfare programs, however, leave many issues unresolved. One has to do with who should participate. Many proposals call for government to provide a "workfare" job for everybody, rather than defining it as a stage following a period of service provision. We believe that attempting to provide work for all those in need would prove very expensive, and would be ultimately less effective than activities designed to move recipients into unsubsidized jobs.

Other issues have to do with the design of the program. Jobs should be an opportunity to **earn** a wage doing productive work, which means that the jobs will have to be carefully structured and well supervised. Agencies will also have to develop appropriate mechanisms for determining who is able to work; for tracking time on welfare, including repeat spells; and for allowing movement back into transitional services when appropriate. They will have to develop procedures for paying only for hours worked while allowing for sick leave and other legitimate absences. Adequate safeguards must be built in to protect the rights and needs of the children in households where the adults choose not to work. We realize that none of this will be easy.

Nor will it be cheap. Wages in the guaranteed work program will be capped at the state's benefit amount for the household of that size. Thus, in terms of the wages the recipient gets, this program costs no more than providing a direct cash benefit. On the other hand, administration of the new public sector jobs, supervision, materials and equipment, liability insurance and a variety of other costs are likely to be quite expensive. We estimate that the additional costs of materials, supervision and administration will cost about 25 percent of wages, or about $1500 per person based on current benefit levels.

The program would target those still dependent after a period of education and training. About 16 percent of current AFDC recipients are working-age adults, able to work, who have been on the program more than 3 years, including repeat spells. The total non-wage costs to engage this group in productive work is thus $2.5 billion, assuming no reduction in caseload duration. If, in the initial stages, the program excludes parents of children less than three years old, only 9.7 percent of the caseload would be employed, at a cost of $1.6 billion. If the work requirement or beneficial effects of engaging in work result in shorter case durations, the costs of the program could be reduced substantially.

These costs have some compensating benefits. The workers will in fact be contributing something productive to the economy if the jobs are well-designed and administered. By working rather than merely collecting money, recipients are able to learn and develop new skills, to demonstrate their willingness and ability to work, and to obtain references from their supervisors. These benefits may lead the recipient to a private sector job sooner than would have been possible if he or she had only collected a benefit.

On balance, we expect this program to be more expensive than AFDC. The expense reinforces our belief that public sector jobs need to be carefully targeted, and that for most people the goal should not be a public sector job but a transition back to or into unsubsidized jobs.

Investments in poor communities. Nowhere is the need for experimentation more clear than in the poorest areas of our cities. Experimentation means taking risks, and accepting some failures. The situation in these neighborhoods demands immediate action, even if there is no guarantee of success; without trying and making mistakes, we can never learn what works and what does not. We recommend a period of extensive and diverse innovation, coupled with formal evaluations so we can learn more about what works and what does not.

Community-based organizations in poor neighborhoods can provide both economic and social benefits to the communities they serve. They can help to rebuild housing, attract jobs, help train neighborhood residents for jobs, and provide counselling and services for at-risk youth in the schools.

We cannot provide a cost figure for experimentation in this area, but it is important to note that the best projects do not rely heavily on public subsidies. They use small grants, loan guarantees and technical assistance to leverage much larger amounts of private capital. The reliance on private sources of capital is important to imbue the projects with a certain degree of market discipline; the public participation is important to ensure that private capital will be available.

THE SHORT-TERM FEDERAL AGENDA

Efforts by the states can be greatly assisted by several steps at the federal level. The short-term federal agenda includes three items in addition to management of the economy:

1. **Help the states with the process of transforming the AFDC program into the transitional program we have described.** This includes:
    - Mandating, funding, and evaluating flexible work programs designed by the states.
    - Mandating AFDC-UP in all states.
    - Setting and indexing a national minimum benefit that, including food stamps, reaches 67 percent of the poverty line.
2. **Allow New York and other states to experiment with an approach that targets services and guarantees the opportunity to work for wages.**
3. **Taking steps to improve the conditions of the working poor and near poor**, including:
    - Providing access to health care coverage.
    - Supplementing earned income for working poor families through the EITC.

Costs and Benefits.

The costs of this agenda, though not trivial, should be looked at as investments. The Task Force recognizes that the fiscal constraints imposed by the current federal budget deficit dictate that our proposals must be phased in over a period of years. Yet we cannot neglect investments in building the labor force, and in developing a welfare system that helps people become self-sufficient. In the long run, investments in the transitional and guaranteed work programs will generate economic growth and budgetary savings that will at least partially compensate for the initial costs and the extension of benefits.

Benefit levels and coverage. The current AFDC program provides the basic building block for our transitional support program. As the program increases its emphasis on preparation for work, we believe that it should also raise benefits and coverage to more humane levels.

We [illegible] **federally established minimum benefit level** eventually [illegible] total package close to the poverty line with adjustments [illegible] living variations. Recognizing the need for fiscal responsi[illegible] Task Force advocates approaching this goal gradually, as work programs are established, so that savings from decreased lengths of stay on welfare can be applied to raising benefits.

As an initial step, we recommend establishment of a federal minimum cash and food stamp benefit at two-thirds of the poverty line, which would raise cash benefits to about $320 per month for a family of four in the 14 lowest benefit states. We estimate that raising the lowest third benefit level states to this national minimum would cost $600 million to $700 million, depending on the extent to which new families become eligible and apply for aid. We recommend that the federal government pay 90 percent of the increase for states that are affected, phasing out over several years to the standard matching rate.

The federal minimum benefit should be indexed to inflation. Thus, it would remain a fixed percentage of the poverty line. States would be free to supplement the minimum, as they are with SSI, but states above the national minimum would not be required to index their benefit levels.

The current requirement that states establish a standard of need can be an additional vehicle for moving toward more uniform and adequate benefit levels. We recommend a **uniform national methodology for determining standards of need** that allows for cost of living adjustments. States could be required to calculate and publish standards of need each year. This measure would provide important information to those making decisions about state supplementation of the federal minimum and provide a useful basis for interstate comparisons and studies of program effectiveness.

The transitional program we advocate would be available to all families with children in which the working age adults were unemployed or underemployed. **The major step toward achieving this is to extend the AFDC Unemployed Parent program (AFDC-UP) to all states.** About half the states now participate in this program, but only 9.9 percent of the caseload qualifies on this basis. Because most of the largest states have already opted to provide UP, the cost of extending it to all states is relatively modest. In 1986, this proposal was considered in the U.S. Congress, and was estimated to cost $255 million on an annual basis, after deducting savings in Food Stamps and other programs.

We do not envision the transitional program as a source of income supplementation for those working at full capacity. Some combination of changes in the tax code, increases in entry level wages, and improvements in the availability of child care and health coverage are necessary to eliminate the need for income supplementation of two-parent families in which the adults work. In the interim, states can extend their general assistance programs to cover these families, as New York already does.

Health insurance for the working poor. Improving access to basic health care to the working poor and the near poor is essential to making work better than welfare. Current efforts to extend Medicaid to some of the working poor are excellent interim steps, but we believe that a new non-welfare health insurance program would be more appropriate.

We propose a system in which a basic health care package, similar to an open-enrollment private plan, is available free to those in poverty and for a sliding fee to the near poor. Ideally it would be run by the same entities -- private insurance companies and HMO's, for example -- that provide employer-based health insurance, so that transitions to an employer plan would be easy. The Task Force recommends that the federal government move quickly to design and establish such plans, although others are in a better position to outline the details.

Proper pre-natal care, infant nutrition, and health care for children have been demonstrated to be cost-effective investments from society's point of view. The principal benefits are less dependence on public assistance, higher wages and tax revenues, and higher labor productivity. One estimate is that $1 spent on comprehensive prebirth care can save more than $3 in health care costs in an infant's first year of life.

Further, persons without coverage defer routine and preventive care, and often end up getting more expensive out-patient care in hospital emergency rooms or needing extended hospitalization to care for conditions that grew worse when care was neglected. Hospitals now spend about $6 billion on uncompensated care, much of it on those who would be eligible for the plan we advocate. The reduction in the hidden costs of uncompensated care should partially offset the cost of our plan.

Our estimate of the cost of providing this coverage is based on the approximate cost of basic health care coverage, for typical Blue Cross/Blue Shield open enrollment "community-rated" policies. The total cost of insuring those who now have no insurance is $5.7 billion, after deducting sliding fee co-payments by the near poor (defined as households with incomes between 100 and 150 percent of the poverty line). Some who now purchase insurance or get insurance through an employer may also come into the system. Our estimate including this displacement effect is $8.6 billion. At this cost, the plan might not be as comprehensive as Medicaid, but would provide access to basic health care, including primary and preventive care, for those who now have nothing.

Income supplements. Given the low wages now paid in many entry-level jobs, particularly jobs often done by women, there is a need to supplement **earned** income. The best vehicle for this function is the tax system, particularly the Earned Income Tax Credit (EITC). The current tax law took an important step by virtually eliminating tax liability for the poor, and by increasing the refundable EITC to $800. It also increased the exemption for dependents to $2000. The Task Force recommends that the EITC be further revised to vary by family size, so that it approximates a children's allowance.

FUNDAMENTAL CHOICES

Americans value work. Work benefits the individual, the family, and society. Our vision is of a society where work is every family's primary source of support. The new social contract that captures our vision recognizes the mutual obligations and responsibilities that work entails: in exchange for working at full capacity, society has the responsibility to ensure access to wages, benefits and services that allow all who contribute productively to society to provide for their families.

Our programs used to assume that people who needed public assistance, primarily mothers of young children, could not work. Today they should expect that all people, including most mothers of young children, want to work and will do so if they are able. As we have stressed throughout this report, barriers that make work untenable for heads of families must be removed. The current welfare system was not intended to move recipients from welfare to work. In contrast, we insist that government programs should focus on creating and strengthening the links to work. Each of our programs embodies this principle. They are designed to be responsive to the great variety of problems that cause people to be poor.

We as a nation now face fundamental choices about the kind of society we want to be. Do we want poverty and despair amid affluence? Do we want a growing number of our citizens unemployed, alienated, and unable to fill entry-level jobs even as entry-level jobs go begging?

Most Americans do not want that kind of a society. They would prefer a society in which children had food, shelter and medical care; in which full-time work was rewarded with adequate wages and benefits; in which people were judged, and paid, on the basis of their merits and not their race or sex. Americans would prefer a society in which everyone had a chance, through education and work, to share in the American dream.

Appendix A

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Appendix B

Statements By Individual Task Force Members

Statement by Judith Avner

Director, New York State Division for Women

Increasing the availability of affordable quality child care, strong enforcement of sufficient levels of child support for AFDC and non-AFDC recipients, and implementation of pay equity are paramount to any strategy designed to combat poverty. The Task Force's approach of integrating these concerns into a welfare reform strategy is essential to the ultimate success of any proposals to develop adequate, equitable welfare policy to assist the poor and working poor to achieve economic self-sufficiency. I am pleased, also, with the recognition of the need to eliminate sex- and race-based stereotypes. Equity in education is integral to preventing and alleviating poverty among women. Women and minorities must have access to better paying jobs if they are to have a real opportunity for economic self-sufficiency. A critical part of this effort is the enactment of strong federal and state laws that prohibit sex discrimination in educational institutions receiving government funds.

The Report provides direction for designing welfare reforms. Implementation strategies should address such issues as: assuring adequate care for children if their parents fail to complete the transitional program and are shifted to the guaranteed work program; assisting women who become pregnant during their participation in the transitional program; assisting single parents who have multiple family problems; helping parents coordinate the needs of two or more children with different child care requirements; assuring that counselors do not develop programs for participants that incorporate sex and race-based stereotypes; and, assuring sufficient private sector involvement to enhance participants' opportunities to be hired by the private sector. These and other questions represent a challenge as we develop the details of an implementation strategy.

Statement by Maria Josefa Canino

Member, Board of Trustees, City University of New York

I anticipate that the debate on how to reduce poverty will be considerably enhanced by the report to the extent that it:

- emphasizes the necessity of running a high-employment, high-productivity economy;
- identifies the inadequacies of current education and training efforts; and
- recommends broad economic policies as well as social programs.

In addressing these long overdue and unmet social obligations to the working poor and near poor, the report should have far reaching implications for the shaping of these vital national agendas.

I take exception, however, with the assumptions to the "New Social Contract." Past government failures to meet obligations to provide gainful employment for all citizens, particularly blacks, Puerto Ricans and other Hispanics, and the growth of joblessness and social dislocation into a permanent and endemic condition of the United States economy, precludes my support for the work-based welfare reform recommendations of the Task Force. These would require all public assistance recipients, mainly mothers with children under six, to work or prepare to work in return for income supports.

I also note the vulnerability of the report in avoiding a discussion of specific monetary and fiscal policy recommendations geared towards creating and generating the rewarding, stable employment opportunities without which any social welfare reform is doomed.

Statement by Professor Manual Diaz, Jr.

Executive Director, Progress, Inc.

The report's most significant shortcoming is that it does not adequately address issues of empowerment of individuals and their communities. Poverty is not simply an outcome of negative economic determinants, but is also a product of feelings of powerlessness, a state of anomie and a lack of stake in the system.

The report seems to imply that the government's obligations under the "New Social Contract" terminate once citizens are offered economic and educational opportunities. In my view a "Social Contract" in a true democracy is a metaphor for Social Justice! As such it would also guarantee a safe and clean neighborhood, peace of mind and an opportunity to participate in day to day decisions that affect quality of life.

The concept of a "Social Contract" emerged in England on the eve of the Industrial Revolution with such philosophers as Locke and Hume. They argued for the strengthening of the individual citizen's ties to family, community and religion --- all forms of communal enterprises. Such ties prevented social dislocation and disorganization. They also enhanced an efficient labor force with a strong work ethic.

While I support the thrust and direction of the report, a broader vision of the role of government would more properly address the issues of poverty in America today.

Statement by Peter B. Edelman
Professor of Law, Georgetown University

It is worth engaging in a separate expression of concurring views to emphasize that the proposals in the report are interdependent and inseparable from one another. The essential elements of responsibility are mutual, involving the government and the individual both. The responsibility placed upon individuals to exert maximum effort toward self-sufficiency must be accompanied by necessary education and training opportunities and, ultimately, by sufficient jobs at adequate pay.

I think it is particularly important to stress that, if adequate numbers of private sector jobs are not available and if government is not going to fund a sufficient number of jobs for countercyclical purposes or for the long-term part of the Task Force's proposal, it has a continuing obligation to provide cash assistance instead. The package of benefits should be structured so that it is always more attractive to work, even part-time, than to be fully dependent on cash assistance, and if the "last resort" jobs the Task Force proposes are not created in adequate measure, continued aid in the form of cash assistance **must be provided.**

Similarly, adequate due process guarantees against bureaucratic arbitrariness need to be built in at all stages. If the sanction against a recipient for failing to accept a job in the guaranteed work part of the program is a cessation of assistance to the family or even just to the uncooperative adult in the family, there need to be careful safeguards to assure that the job offered was geographically accessible, any necessary child care was offered, and so on.

There is another dimension of interdependence and inseparability in the proposals as well. The problem being addressed is poverty, not just welfare. "Reforming" welfare will not solve poverty, for welfare is irrelevant to many of the poor. A combination of macroeconomic and structural policies is essential to increasing self-sufficiency significantly and thereby reducing poverty substantially. Neither set of policies can succeed in adequate measure by itself. Both are necessary.

Indeed, we do have too much "welfare," because "welfare" is what happens when the economy fails to produce enough good jobs, fails to distribute fairly the ones it does offer, and fails to afford adequate preparation and support to make people employable. The way to reduce the welfare rolls, in the end, is to make enough jobs available and make it more attractive to work than to receive cash assistance. Until that happens, the provision of long-term cash assistance, inappropriate as that is as the main way we have of ameliorating poverty, will have to continue. And simplistic solutions which selectively and punitively adopt some of the Task Force's recommendations while ignoring others are unacceptable.